REVIEW OF THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

HEARINGS

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REVIEW OF THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

TUESDAY, OCTOBER 6, 1981

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The committee met at 11 a.m., in room 357, Russell Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Present: Senators Roth, Mattingly, Eagleton, and Chiles.

OPENING STATEMENT OF SENATOR ROTH

Chairman ROTH. The committee will please be in order.

I regret that we begin what I consider to be an extremely important series of hearings at a time when the minds of all of us are on events across the sea. But we feel that we have made a commitment and it is important that we proceed, despite the tragedy in Egypt.

Today the Senate Governmental Affairs Committee begins a series of oversight hearings on the Congressional Budget and Impoundment Control Act of 1974. These hearings, which represent the first comprehensive Senate oversight review of this landmark legislation, come at a time of testing and questioning of the Budget Act, from both within and outside Congress.

In these hearings, the committee will seek to determine whether the new congressional budgeting process is doing what it was intended to do when it was enacted with such high hopes and expectations 7 years ago, or whether some major changes may be needed to meet the legislative and economic realities of the 1980's.

At the outset, let me say that the original legislation was forged in a bipartisan consensus and, if the system is to work, I believe that any reform must have strong bipartisan support in both Houses.

I would like to state in the beginning my strong belief that the Budget Act was a giant step forward in imposing a degree of rationality on what had been a haphazard and virtually uncontrollable appropriations process. Before 1974, the appropriations and tax committees of the Senate and the House did their work in splendid isolation, spending money and raising revenues with little or no reference to each other or to the various external forces affecting the Nation's economy.

The authorizing committees had, in many cases, bypassed the Appropriations Committee through back-door financing, such as

entitlements. I think it can be fairly said that under the old system, Congress really had no idea how much money it was spending until all the appropriations bills had been acted on individually and the back-door expenditures were handed out at the end of the year. By then, of course, it was too late, too late to adjust the spending in line with available revenue, or in keeping with any overall monetary or fiscal policy. The product of this totally unrealistic system, as we all know, was an ever-growing Federal deficit and a long-term economic decline, the effects of which we continue to suffer today.

Now the Congress has a process to consider the broader fiscal policies and questions. But in saying that we are better off now than 7 years ago, I am not implying the process is satisfactory or not in need of further refinement and changes. Far from it. I for one am concerned that we seem to be so hurried with schedules and the details of budgeting, authorizing, and appropriations, that we are not able to focus as much as we should on fundamental policy issues facing our Nation or on assuring that the programs are working effectively.

I am particularly troubled by the fact that the new budget process has done little to reduce the repetition and duplication of effort among the authorization and budget committees. This year, for example, we have gone through the first budget resolution yet nobody back home really knows how much money to expect from the Federal Government until sometime next month when the second budget resolution is approved, 2 months after the deadline. I think it is critically important that as we go through this review process, we keep in mind the importance of giving some kind of advance notice to our schools, to our cities, local governments, States and others as to what they can expect in the coming year in the way of Federal help or we undermine their budgetary process.

The situation reminds me of a plaque I once saw on the desk of one of my harried colleagues: "The hurrieder I go, the behinder I get." My fear is that as the budget process becomes increasingly complicated and fragmented, it is in danger of collapsing under its own weight. Unless some major changes are made, the Senate may soon be known not as the world's greatest deliberative body, but as the world's foremost hotbed of procrastination and indecision.

I think that the process raises a number of difficult questions. Concerns were raised when reconciliation was first used 2 years ago and particularly this year when it was used in conjunction with the first budget resolution. There is no doubt that reconciliation can serve to improve the efficiency of the decisionmaking process, but does it allow the President to usurp congressional prerogatives? Does reconciliation bypass normal democratic procedures and permit the majority to enact legislation without sufficient debate or opportunity for amendment? Or are there other, better ways for a new administration to carry out its program without threatening the independence and traditions of Congress?

For instance, should reconciliation measures be limited in some way to prevent them from altering the substance of programs?

A related issue is the role of the Budget Committees in establishing congressional spending priorities. Some believe the Budget Committees have evolved into super-committees, with the power to

strongly influence, if not dictate, the levels of spending for the various appropriations categories.

Have the Budget Committees undermined the authority of the authorization and appropriations committees? If so, what can and should be done to insure that spending decisions are made in the most orderly and rational manner, without ignoring the legitimate concerns of all citizens? For example, could the Budget Committee membership be expanded to include the chairman and ranking minority members of the authorizations, appropriations, and tax committees?

Let me list briefly some other possible reforms. Some have called for the establishing of a biennial budget cycle which will allow 2 years to develop and enact a budget for the following 2 years. An even more far reaching proposal would be to put the entire authorization and appropriation process on a biennial basis devoting 1 year entirely to authorizations and perhaps deauthorizations and the other to budgeting and appropriations.

Another idea would be to combine the 13 separate appropriation bills into one omnibus appropriation bill, perhaps as a substitute for the second budget resolution. Other ideas include making the first resolution binding and less detailed.

In any event, the committee will be exploring these ideas and I hope our witnesses will not hesitate to make any other suggestions they might have.

I might point out we will be also looking at congressional control over the President's authority to impound. Also, we will explore such issues as committee workloads, duplication of efforts among various congressional committees and agencies, and the wisdom of placing some Federal agencies and programs off budget.

In the interest of time, I would ask, if I might, that my two colleagues' opening remarks be delayed until Congressman Bolling has a chance to testify.

Unfortunately, I know he has a commitment which he cannot avoid and he was most generous and kind in meeting the change of schedule that we had in this committee.

Congressman Bolling, would you and any people with you come forward?

I would, again, like to welcome you here. As I said on other occasions, I think you have one of the brightest, most innovative minds, and I think what you have to say about the process will be of great interest to us all.

TESTIMONY OF HON. RICHARD BOLLING, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Representative BOLLING. Thank you very much, Mr. Chairman.

Before presenting my testimony this morning, I wish to take the opportunity to thank the chairman for his invitation to appear and commend the committee for holding these hearings on the Congressional Budget and Impoundment Control Act of 1974.

I listened with care to the chairman's opening statement and it is clear you recognize that what you are really dealing with here is not the Budget and the Accounting Act system, you are dealing with the whole legislative system of the House and the Senate.

I think the difficulties that you foresee are present. I think they have been all along, and I think we desperately need, as an institution, a bicameral institution to look at our whole legislative process with a view to reconciling the different roles that we have chosen to give to the authorizing process, the appropriation process and the budget committee process, all of which evolve in relation to each other. It is an enormously complicated process and it is complicated and ill enough understood today so that I think there is very real possibilty of it breaking down.

I happen to believe that if it breaks down, even for a relatively short time, it is enormously dangerous, not to the institutions alone, but to the whole of our processes.

I do not believe that any democracy will long survive unless there are representative institutions like the House and the Senate to deal effectively with the problems that confront us. I think it is more than a coincidence that virtually every developed country which has free elections is suffering real problems in dealing with fiscal matters. And that, of course, is the reason for the Budget Act.

I have chosen to deal primarily with the way in which the act came into being and a little bit with current history, but before I say that, I would like to state that I was assisted in the preparation of these remarks by John Barriere, who is senior advisor to the House Rules Committee. John is a longtime, dedicated House employee who has worked for three Speakers before he came to the Rules Committee as a retired annuitant. He has managed to keep himself almost totally anonymous in more than 30 years at work and a great deal of the good work that has been done in the House of Representatives over those 30 years he has participated in and his role in the 1973–74 Budget Act was both major and crucial and it dealt with substance and strategy. And as I move toward retirement, I am getting more and more bored with the notion of pretending I thought everything up myself. So I would like to give credit when it is possible to do so.

In marked contrast to all previous such efforts, the Congressional Budget Act of 1974 was preeminently an outstanding piece of consensus legislation. Struggle and maneuver over philosophy and turf alike were of course present. It could not be otherwise. But the head-on donnybrooks which had featured previous redistribution of power over the manner in which money was to be spent were totally absent.

Major landmark legislation is almost inevitably consensus legislation. It is the product of compromise and concession.

The roots of consensus in 1974 were varied and complex. The interplay of many factors, within the Congress and between it and the executive, all contributed to the creation of an unusual climate.

Had the budget reform taken place against a background comparable to the earlier naked power struggles, it is highly unlikely it would have succeeded or, if it had, a large residue of bitterness would have been its legacy.

A brief examination therefore of the special factors which nurtured consensus in 1974 is in order. Certainly it was unprecedent-

ed. To predict its recurrence in the event of failure for the 1974 legislation would be indeed rash.

The very manner which Congress processed the budget guaranteed conflict and irresponsibility. Speaking from the House point of view, Ways and Means was charged with raising revenue, Appropriations, in theory at least, for spending. Taxes could be cut and/or spending raised independently. Any adverse effect resulting from the action of the one could be blamed upon the other. With the growth of backdoor financing, the Appropriations Committee lacked authority over a significant portion of spending.

In addition, it seldom functioned as a committee. Rather, decisions were made at the subcommittee level, thus further contributing to fiscal chaos. Finally, budget authority, not outlays, was what was reported from the Appropriations Committee. Periodic ritualistic onslaughts slashing appropriations bills always failed to result in a comparable reduction in outlays.

None of this, however, made inevitable or even probable the 1974 legislation. It was a series of events transpiring outside Congress which in the end forced Congress to finally reform its internal budget procedure.

The Vietnam war was the initial event in that series. In 1967, President Johnson belatedly requested Congress to raise taxes for its prosecution.

In return for its approval of a surtax, the Ways and Means Committee forced the President and the Appropriations Committee to accede to an expenditure limit. But he was charged with its enforcement. He was authorized to impound funds previously appropriated.

George Mahon, chairman of the Appropriations Committee, warned that reduction of expenditures was the responsibility of the Congress and in delegating it to the President, the House was shirking its constitutional responsibilities. He prophesied future Presidents would use the weapon for policy implementation.

The expenditure limit was ineffective. Each year it contained exemptions for noncontrollables, entitlements, transfer payments, interest on the national debt, and so forth.

Over the years, additional programs with particularly powerful constituencies were able to gain exemption. Congress, because of President Nixon's abuse of impoundment, refused to extend the expenditure ceiling in 1971.

Vietnam was not the only outside event reflected in the budget battles. There was sharp disagreement in the country as to the proper priorities. The budget battle took place against growing economic stagnation. The number of claimants upon the economic pie was ever greater, yet the pie failed to grow. Legislative committees and constituency groups with whom they were closely allied developed the staffs and expertise to challenge Appropriations Committee decisions on the House floor.

With growing frequency, the House refused to accede in the traditional manner to spending decisions of the Appropriations Committee.

1972 saw the budget battle between President Nixon and Congress escalate. Comity between the executive and legislative branches disappeared. Comity is the antidote to the rigidity of inde-

pendent tripart government. It also requires the ability and willingness to agree to what is to be disagreed about and how a disagreement is to be contested and settled.

Failure to comprehend and honor this tradition was Mr. Nixon's gravest transgression and in the end his undoing.

President Nixon, in 1972, disapproved 16 bills, 12 after adjournment. Those vetoes included several appropriations bills. Increasingly he claimed and exercised the right to impound funds appropriated by the Congress.

On October 17, 1972, he stated, should Congress override his veto of the water pollution measure, he would refuse to spend the money anyway. The President justified impoundments on the ground that Congress, with its separate spending and taxing procedures was incapable of acting in a responsible fiscal manner.

The President, in his January 1973 budget message, made clear his intent to utilize his alleged impoundment authority on an ever-greater scale. Impoundment is extra-constitutional. It has no role in the American political process. Congress had no choice but to develop a mechanism for dealing with it.

As a practical matter, however, any such mechanism could provide but a partial answer. Constitutional questions could not be isolated from fiscal management. It would also be necessary for the Congress to put its own fiscal house in order.

In its closing hours, the 92d Congress had established a joint study committee on budget control. Thus began a 20-month examination of the congressional budget process. It was to end with President Nixon's signature on the Congressional Budget and Impoundment Control Act on July 12, 1974.

Viewed in retrospect, it might appear the 1974 budget legislation was but an inevitable and logical outcome of what has preceded. Such was not the case. The Budget Act's legislative path was replete with junctures opportune for its derailment. A simplistic proposal or unimaginative bill managements would have resulted in the hour slipping by without fruition.

The Joint Budget Committee saw as its mission the development of coordinating procedures between spending and revenue committees. Other areas were ignored. Its recommendations would have guaranteed interment of budget reform. Proposed budget committees were to be dominated by senior appropriations and revenue committee members. The House Appropriations Committee would have been reduced to a financial clerk. The political philosophy of the House Budget Committee would have been markedly to the right of that of the House.

The early imposition of a spending ceiling would have made it impossible for Congress to respond to drastic changes in the economy. Legislative committees saw several provisions as inimical to their vital interests and coalesced in opposition.

The budget reform bill, on April 18, 1973, was referred to the House Rules Committee. There it was to be entirely recast.

Before turning its attention to budget reform, that committee had to consider impoundment. Demands for a congressional response to Presidential defiance had reached a crescendo. Constitutional scholars branded the President's claim of inherent or statu-

tory authority without foundation and his actions as unconstitutional.

The committee, however, for strategic reasons sidestepped constitutional questions. The committee reported and the House approved legislation establishing a mechanism by which Congress might deal with this vexing usurpation of power. The 254 to 164 result on July 25, 1973, was perceived as a liberal victory.

With passage of impoundment legislation, the Rules Committee turned to budget reform. I agreed, at Speaker Albert's request, to serve as bill manager. We were in accord. This was a historic moment to be exploited. A measure enjoying near unanimous approval was mandatory. With bipartisan support such a product was fashioned.

As cleared by Rules, the Budget Committee was not to be dominated by those serving on the spending and revenue committees. Enlargement, rotating membership, and a bar against the appointment by seniority would make it more flexible and representative.

The first budget resolution was to contain targets rather than ceilings on spending, revenue, and debt. The Appropriations Committee and the authorizing committees would continue to function as before.

The hour of truth for Congress was to be the second budget resolution when ceilings would be established. This would be enforced when necessary by reconciliation. A reconciliation measure could contain provisions increasing revenue or reducing previously provided spending or any combination.

The objective of the legislation was not the implementation of a particular fiscal policy, a balanced budget; rather it was to force Congress to be responsible.

Should economic and political factors dictate more or less revenue or more or less spending, the Congress was to be free to adopt the desired policy.

The revision reflected my suspicion of rigidity and ideology. Any budget process would be doomed if it straitjacketed Congress. Congress will not permit its constitutional mandate to provide for the general welfare and common defense to be thwarted by any process. If the Congress must choose between responding to an overwhelming demand or a rigid budget process, that budget process will be junked or subverted. With a view toward conservative-liberal balance, the budget and anti-impoundment measures were joined in an omnibus bill. It passed the House on December 5, 1973, by a vote of 386 to 23. The essence of the congressional budget process as contained in the House version was embodied in the conference report and approved by the President 7 months later.

The long-overdue success of budget reform was witnessed in 1974, through a fortuitous combination of controversy, logic, and good fortune. We may now be viewing the beginning of the end of that same budget process.

Prior to 1980, the budget process had performed substantially as contemplated. It forced, admittedly, imperfectly, the Congress to look not only at the budget but also the economy in its entirety. Of vital importance, it survived. It had every prospect for future survival. It was viewed as politically neutral. This year the budget process has become identified with the objectives of political conser-

vatism. A budget process which is viewed by progressives as inimical to their objectives and a part of the conservative credo will suffer from a political rejection of conservatism.

I now turn to the reconciliation process.

The first break in 1980 witnessed the intent of the legislation. The reconciliation process was used in connection with the first rather than the second budget resolution. Political climate appeared to call for a balanced budget. Its attainment with credence required a reduction in previously authorized entitlements pursuant to the first resolution. This year the budget resolution as rewritten on the House floor by Gramm-Latta went further in instructing committees to reduce previously approved authorization for appropriations for 1982 and 1983 and 1984 as well. In drafting reconciliation legislation, committees use it as a vehicle for substantive legislation. In its final version, reconciliation substituted block grants for categorical programs. The reconciliation was exploited for purposes never envisioned by the authors of the 1974 legislation.

The reconciliation bill is all too symptomatic of a serious cancer in the American political process. Congress is a coequal branch with the President of the Government. Political parties, it is true, were devised to bridge the gap between the executive and the legislative. The party members should not give their automatic approval to a legislative program merely because they are in accord with its philosophical objectives. That was the great tragedy in the relationship between Lyndon Johnson and the Congress as it regards Great Society programs.

President Reagan and the Republican leadership have carried this unwise method of operation yet further. Why invest the time and effort in the often admittedly slow and painfully deliberative process of considering and compromising legislative proposals? It is so much easier and neater to attach them to the reconciliation bill. That the initiation, extension, or termination of a program may have no relationship to the purpose of reconciliation makes no difference.

A conservative President and a conservative Congress are in accord as to ends, a drastic contraction of the public sector.

Let us not quibble, therefore, over means.

The exploitation of reconciliation coupled with Draconian Republic Party discipline, enabled the Executive to unilaterally impose its will in near totality on Congress. Superficially, this may have resembled parliamentary government. Under our system, however, as the Executive is not drawn from the Members of the Legislature, it is truly a recipe for despotism.

Those of my colleagues who would permit Congress role as a legislature to atrophy would be well advised to reconsider. If we are to be reduced to automatons, permitted only to ratify a Presidential legislative agenda, which has been premasticated by an all-powerful Executive, the American people, with some justice, may very well address themselves to the question: Why should we support with our tax dollars this overly expensive anachronism?

I would like to add, to complete my statement, that that may sound like a very strong partisan statement. It is only designed to make clear the relationship between the Congress and the Execu-

tive is extraordinarily difficult and that this issue which you quite properly seek to take up in a bipartisan way and to achieve a consensus result is an intensely political one which must be regarded with the very greatest of care because otherwise there is no possibility of having a good result.

This has to be a system, a budget system that survives administrations, regardless of their views. This has to be a system which is not exploited for short-term political gain by a Lyndon Johnson or a Richard Nixon or a Ronald Reagan. It has to be designed for a permanent place, or we are going to, in fact, lose. We tend to take it for granted, I think, in a dangerously casual way.

Thank you very much, Mr. Chairman. I will be glad to take any questions.

Chairman ROTH. Thank you, Mr. Bolling. I, in my own statement, expressed some concern about reconciliation. I suppose that in a sense one could argue that it is neutral. As a matter of fact, I have pointed out to some of my more conservative colleagues the phrase just used, "It cuts both ways." For example, I know a number of conservatives were concerned in 1980, when its use was attempted to adopt the controversial superfund legislation. So I think the basic question is do we want to legislate in this manner? It can be utilized by either conservatives, liberals, or whatever the primary philosophy at that time may be.

There is another side of the coin that I would like to address, and ask you to comment upon. There has been real concern that decisionmaking has been very impractical in democracies, particularly ours.

I am sure you are acquainted with Lloyd Cutler's very forthright article in Foreign Affairs last year in which he argued, I won't say persuasively because I didn't go along with it, but he makes a very attractive argument that in our form of government, it has become almost impossible to make the decisions that are essential to meet the problems of the time. In the opening section he says, "A particular shortcoming in need of a remedy is a structural inability of our Government to propose, legislate, and administer a balanced program for government."

I appeared with him at Harvard, where he argued even though he had an overwhelming Democratic majority in both Houses and a Democratic President, that because of the separation of power, because of the special interests and for many other reasons, that it was impossible for any President to get adoption of his programs. Now, in a way, reconciliation offers a solution to that problem but it has all the pitfalls you are pointing out: It alters the legislative process in the Congress. Do you agree with the problem of decisionmaking and, if so, is there any middle road?

Representative BOLLING. I think there must be. I agree with the problem. I don't think just this democracy, but as I tried to say, I think all the democracies are having a major difficulty in dealing with one area of decisionmaking. Almost all of those countries, and there are not very many of them—under 20—that have free-choice elections on a regular basis, almost each one of those countries, including the oldest practitioners of the welfare state, have run into difficulties in the last 10 years. And the difficulties they have run

into have been in policy management in the economic and fiscal fields.

And I think the real test in the next decade or two for the democracies is going to be their ability to adjust their governments to deal realistically with the societies that they have created over the last 100 years.

I think in this country, and this is probably the principal reason for my planned retirement, because I would like to apply myself certainly full time to it, we have lost the kind of relationship between theory and practice that for so long existed in this country. And it seems to me that it is terribly important in this process that you accept that what we are dealing with is the whole process of government in the guise of dealing with the Budget Act because the Budget Act, in effect, tried to put an effective operational umbrella over all the other processes of government, at least insofar as the Congress was concerned.

I do not mean to stray from the assignment, but the people who founded the country did not choose one system over another accidentally. They perceived the 13 colonies that they were dealing with as vast enough and complicated enough so they very deliberately did not want to have a quick process. They were so concerned about tyranny that they fractionalized power and they did it very deliberately. They broke it up in a variety of ways.

The country has grown bigger, grown infinitely more complicated, become much more responsible for even a larger area than the country itself and I think, therefore, the problems of meeting our responsibilities are monumentally difficult.

I think we are in an enormously exciting period of time where, for all practical purposes, we are between two great major eras and what you and others in the Congress over the years ahead are going to be doing is reinventing the process because we are going to have to make work a process which is not now working very well. I think it is terribly important to face up to it and it is going to be a problem that can only be solved in my view by a bipartisan approach, by a multi-interest approach.

I don't think there is any possibility that a partisan government is going to succeed in this country in the foreseeable future and that being the case, the alternatives are that there be the kind of cooperation and consensus that can only come out of society deliberately. I didn't come here to impose on you, but I am a coauthor of a book that is out now, which I know the chairman knows about, which deals with that relatively narrow problem, how do we get back in this society to dealing with problems not only on a consensus base but on a coalition based on the agreement of opposites on policy?

That is the kind of coalition that existed in the United States in the middle 1940's. It is the basis of the policies that worked rather well in the country for 15 or 20 years and there were coalitions inside Government and outside Government. I don't think we have got a chance to deal with the reform of institutions, with the reform of Government unless those reforms are supported by more than a few well-intentioned specialists in the House and Senate who are interested in the subject.

I think we have to pull together a very much larger kind of an effort. I must say, Mr. Chairman, that your committee and you have been responsible for a very major kind of effort which fits that pattern, and that is the Commission on More Effective Government. I think that is a model of the kind of thing that needs to be done in a variety of ways. That happens to deal largely with the executive, although it deals with all other governments and with the Congress as well. But I don't think we are going to get anywhere if we continue our not-very-effective partisan warfare and we have nothing but these swings back and forth from one extreme to another extreme.

Chairman ROTH. As you know, I share that concern and I do think it has to be a bipartisan approach with public backing. I am concerned that if we don't use reconciliation, we must find some other answer because I think one of the key problems in government today, and I am speaking of the executive branch as well as the legislative, is this inability to have any real decisionmaking. We can talk about letting Congress work its will, but there must be some means, as Lloyd Cutler says, of insuring that it is done with some relative promptness so that we don't kill a proposal just by lack of action I think this has been a problem.

I understand that you have to leave at a quarter of, so I am going to ask Senator Chiles if he has any questions at this time.

Representive BOLLING. I can provide some more time if you want me to, but I won't impose on you.

Chairman ROTH. Good.

Senator CHILES. Congressman Bolling, you paint reconciliation as an authoritarian measure keeping Congress from enacting its will. Some of us who have worked on the Budget Committee for the last 6 years see it as the only way that Congress has been able to enact its will. Each year we pass the first budget resolution and it always implied cutting back on old programs to make room for the new ones.

Somehow, by the time we got to the second resolution, we never got those changes made. It was either too late in the year or we didn't quite make them or we would come up one program at a time and the constituency would always come to the forefront and say don't cut this program, cut the next one. Each time the committees would give us their targets, they would agree they could cut certain items. We put that in our first concurrent resolution but it never happened and we never saw any real changes in the reconciliation process.

Now, as to whether it takes place at the first concurrent resolution or the second, I think you may have a very good point there, and also whether it should be used, and I greatly agree with you, it should not be used to change the substance, make substantive changes in the program, but the reconciliation process itself, I think, without that, we have a budget act with no teeth.

Representative BOLLING. I think you have to have a reconciliation process but I think to have a rational legislative process with a reconciliation process you have to do a variety of other things. I will stay with the House. I will talk about some of the problems in the House. I think, for example, you cannot effectively have a legislative process if you have as many divisions as we have in the

House of the legislative process through multiplication of subcommittees. I understand the subcommittees are very convenient to Members of the House who seek them in order to have a title.

We have about enough subcommittees in the House now to take care of all the majority members. It doesn't really do much for the legislative process. I don't know what the situation is in the Senate; but knowing we are all politicians together, I have my suspicions. I think we are going to have to get down to some fundamentals as we improve the process.

Another thing is, for example, I am well aware of how successful the constituency special interests are in translating their interests into power on Capitol Hill through stacking committees. I think we are going to have to look at that in a rather more responsible way in both parties.

We are going to have to stop having congressional committees, at least in the House—I will stay away from the Senate again—we are going to have to stop having congressional committees that represent the interests that they are supposed to legislate on.

Legislative committees should represent the Nation and we should legislate for that interest through national eyes. This is not impossible.

The national aspect of organization is going to have to be given more attention so that we have an integrated result rather than a disintegrated result or you are never going to be able to deal with fiscal problems.

The old system will succeed in forwarding its particular set of interests which, in sum, are not necessarily the general interests.

So I suspect that you have to go to something more than just reconciliation. For example, it seems to me that it is impossible in 1 year to do all the things that need to be done. You cannot authorize and appropriate, and act within the budget process within 1 year. I think there should be some thought given to talking about somewhere between 2 and 4 years. I don't know if you have a 4-year authorization or permanent authorizations and a selective approach toward appropriations within a budget every year or perhaps every 2 years, I don't know. I think those things have to be looked at, thought about and decided upon and relatively quickly within the next 10 years or we are going to find the system just wandering out of control without a great deal of integration or disintegration.

I am all for reconciliation at the end of the process, but I am even more for an understanding of the macroeconomic aspect of the Budget Act.

One of my primary concerns is that we use the Budget Act as a tool to deal with the economy. I hesitate to raise the question because there is such a gulf between the general economic view that I, for example, hold and the general economic view that President Reagan holds. I never thought I would see in Government a complete opposite of my own set of views so perfectly portrayed and I am not being critical.

He has a perfect right to his views just as I have a perfect right to mine, but it seems to me that the Budget Act is enormously important in terms of the macroeconomic management of that por-

tion of the economy which the Government has something to do with.

I don't have any problem thinking we need something like reconciliation, but I think we need a lot of other things done before we make reconciliation a democratic instrument rather than what I suggested.

Senator CHILES. I thank you.

Chairman ROTH. Let me go to three other areas and see whether you have any comments on them.

Do you think there would be any value, not only in having a longer authorization but perhaps a 2-year budget instead of a 1-year and making the whole process biennial?

Representative BOLLING. I think clearly we will have to move in that direction. I am not sure 2 years will do it. If you look at the various attempts at oversight, any serious attempt to deal with, the monitoring of programs that have been put into effect and you know we have had dismal failure in that in both Congress and the executive. You have a program in, whether it be a weapons system or a social program, you have a program under way you can't even divert it. It is a miracle if you can stop it.

We go on in almost a mindless fashion continuing to support programs that have not been examined. One of the classic examples is one of the conservatives' favorites.

Welfare, it seems to me it would be a classic example of how not to do business. In the first place, we don't have a welfare system in this country. We have 50 welfare systems that include all the States and the Federal Government and its relationship to them. There is no integration at all of the system.

In the second place, you have minorities at either end of the spectrum politically which are able to veto any modifications. Mr. Nixon had two different welfare bills which I guess were devised by present Senator Moynihan, at least in part. If either of those had gone through, I think it is demonstrable that the country would be infinitely better off. But what happened was that while we were able to pass such things in the House, when it got to the other body, as we say, to the Senate, it was impossible to get any action at all because there was a veto coming from each end of the spectrum.

Very conservative people were saying it is too generous and very liberal people were saying it is not nearly generous enough. I am not going to go on with that, but I have involved myself in a study by the GAO which actually found out what was going on in welfare in a variety of places in this country and both sides are absolutely correct. There were people who were riding welfare roles who didn't have any business being on them and there were even more people who weren't on the roles at all who desperately needed help.

We have a nonsystem which insists on continuing simply because minorities at either end of the spectrum that don't allow us to pull together.

Chairman ROTH. I agree with you. I think there has to be some kind of a stretchout so that we have time to have some kind of sunset approach. When I was ranking minority member of the Intergovernmental Relations Subcommittee, Senator Muskie and I developed the basic legislation on sunset. Today I have to say I feel

it is too complex. It would be just imposing too much of a burden. One of the thoughts that I have is maybe an interim step, but if you had at least 2 years—that may not be long enough—but at least if you had 2-year budgets, 2-year authorizations and 2-year appropriations, at least 1 year you might devote on operations, oversight and sunset.

Representative BOLLING. I think that would be a great step forward. I think putting it together in 2 years is possible. I think you can figure out the months so that you come out with a result. I think anything less than 2 years and you are dealing with Never, Never Land.

Chairman ROTH. Let me ask you a couple of further questions. There has been a great deal of concern, by some anyway, that the budget is becoming sort of a super committee, taking over many of the functions of the other committees. Do you have any suggestions or comments on that, or how to simplify the procedure. Let me throw this out as a proposal: the Budget Committee's initial resolution would be the binding one but the Appropriations Committee would come out with an omnibus appropriation, combining the 13 bills into 1, to serve the purposes here of the second resolution.

Representative BOLLING. My feeling about a completely omnibus approach at both ends of the spectrum is that it lends itself too much to sort of a perpetuation of the swings in policy. I don't have the answer, but one of your great dilemmas is that you deal with an infinitely complex and divided country which moves in sort of great generalized sweeps and up to this point has not shown much capacity for dealing with programs on a systemmatic monitoring basis.

I think the one fundamental flaw in American Government is we probably waste so much because we simply do not look at the relative effectiveness of the various programs, and everybody has their pet subjects. The liberals will talk about defense and the conservatives will talk about welfare. But I think it gets us to the point, the criticism is valid of both.

Surely there is a vast amount of waste in the defense establishment. But we haven't figured out a mechanism to get there. I would suggest that that is where you get back to a political problem rather than an organizational problem. I tried to tell a Secretary of Defense 20-odd years ago that he was never going to be able to do anything about dealing with defense expenditures unless he had a number of friends of defense on the Armed Services Committee. I think a great deal of the problem we are talking about has to be dealt with looking at the committee structure. I am not trying to evade the question. I am just saying I don't see any answer unless you get to the committee structure in such a way that you have a capacity to insure two things. One, that the programs that are enacted are relatively broadly acceptable, that they are not just one-time shots that a temporary majority puts through.

And second, there has got to be some kind of a bipartisan majority constantly looking at that program, particularly if it is expensive at all, but look at all programs to see if it makes any sense the second year, the third year and the fourth year.

I think the fundamental waste that goes on in Government, and I think there is a great deal of it, is the failure to examine, and I

think any attempt that we make now needs to look at the monitoring end of it.

Chairman ROTH. I agree with that. One final question. In your testimony, you did mention that in creating the Budget Committee, it was intentional to reduce the number or not to have wide representation from the Appropriations and Finance Committees.

As I mentioned, there has been some concern expressed within the halls of this body anyway that the authorization committees, and the Appropriation Committee do not have a significant say in the overall budget. Would it make any sense at this stage or not to perhaps expand the Budget Committee to include, say, chairmen of the various authorizations and appropriations committees and their ranking members.

Representative BOLLING. I thought about that a good deal and I would rather move in the other direction if you want a frank answer. I think what we ought to do on the budget process is make it more and more a leadership responsibility. That is the way it works in the House. The Budget Committee may look enormously powerful. That is essentially mythological in the House. It needs the support of the leadership, always the majority leadership, somewhat the minority leadership, and it also is very dependent on the Rules Committee in the House because that sets the terms of debate and what is in order and so on.

And that is done by your policy committees, although it is sometimes not very clear to everybody that that is what is happening.

You make decisions on procedure that in essence stem from your policy committees and with us it comes from a committee called the Rules Committee. I think I would rather see us go more in the direction in the budget process of the leadership having more and more clear responsibility and have more flexibility in seeing to it who gets on it. I think it is terribly important, again, to look at both bodies in Congress as institutions which need to be organized in a somewhat orderly way. That is one of the reasons that I have been almost always in my career a critic of rigid seniority because that then locks in people in the committee to positions of power and I think that is a mistake because we need the flexibility. So I would not be for increasing the size of the College of Cardinals. I would be for making a stronger Pope with assistants.

Chairman ROTH. Thank you very much, Dick. I appreciate you coming here. We expect to have a series of hearings. We would like to have the freedom to invite you to come here again if you are willing.

Representative BOLLING. Thank you very much and I appreciate the opportunity.

[Representative Bolling's prepared statement follows:]

PREPARED STATEMENT OF HON. RICHARD BOLLING

Mr. Chairman:

Before presenting my testimony this morning, I wish to take this opportunity to thank the Chairman for his invitation to appear, and commend the Committee for holding these hearings on the Congressional Budget and Impoundment Control Act of 1974. I should also like to state that I was assisted in the preparation of these remarks by John Barriere, Senior adviser to the House Rules Committee. John Barriere is a longtime dedicated House employee with a "passion for anonymity." He played a major role in 1974 as to both substance and strategy on the Budget Act.

Any evaluation of the Congressional Budget Act, its post-1974 implementation or future prospects requires a minimum knowledge of Congress' previous endeavors to formalize and rationalize the exercise of its preeminent authority, the power of the purse. By 1829, legislative committees had replaced the Committee of the Whole as the primary decision making vehicle in the House. The Ways and Means Committee then functioned as both a revenue raising and spending committee. In 1865, because of the heavy burdens of financing the Civil War, a new Committee on Appropriations was established and the jurisdiction of the Ways and Means Committee confined to revenue. In 1885, however, the Appropriations Committee was stripped of its authority over some 50% of the appropriations. Jurisdiction over appropriations for the Army, Navy, Agriculture, Rivers and Harbors, among others, was parceled out among the legislative committees. This action in turn was reversed by the House in 1920. In conjunction with passage of the Budget and Accounting Act, Appropriations Committee authority over all appropriations was restored. But the next fifty years once again saw the Appropriations Committee's authority over spending increasingly undermined. Programs providing entitlements, contract authority, trust funds,

and public debt transactions devised by the legislative committees were enacted by Congress. Over these expenditures, any control exercised by the Appropriations Committee proved largely nominal.

Debate over changes in the House's method of dealing with expenditures is revealing. One is quickly disabused of any idea that any Congressional process dealing with the spending of money can be treated as an abstract matter of "sound management." The clash of power, priorities, and personality are the ingredients forming the thread which runs through that Congressional debate for over a century.

The division of the Ways and Means Committee in 1865, it is true, was discussed primarily with reference to the extra work load caused by the Civil War, but the question of the concentration of power in one committee of both taxing and spending was obviously a factor of significant concern. The often acrimonious debate over proposed changes in 1885 and again in 1920 likewise makes it abundantly clear authority to answer those age-old questions of politics -- who gets what, when, and how — was the paramount factor at stake in the contest.

Incidentally, when I first entered the House in 1949, there were several Members still serving who had participated in the 1920 fight. Both Speaker Rayburn and the Chairman of the Armed Services Committee, Carl Vinson, had opposed the 1920 change. To the very day he retired from Congress, Carl Vinson held firmly to the view that it had been a serious mistake.

I believe my colleagues and scholars alike, when examining the 1974 legislation, have failed to discern this most startling fact: In marked contrast to all previous such efforts, the Congressional Budget Act of 1974 was preeminently an outstanding piece of consensus legislation. Struggle and maneuver over philosophy and turf alike were of course present. It could not be otherwise.

But the head-on donnybrooks which had featured previous redistribution of power over the manner in which money was to be spent were totally absent. Without in any manner derogating the substance of the legislation, the attainment of that consensus by widely divergent elements in the House was truly the superb achievement.

Major landmark legislation is almost inevitably consensus legislation. It is the product of compromise and concession. The Full Employment Act of 1946, the Marshall Plan, government reorganization plans stemming from the first Hoover Commission, and the Eisenhower highway program of the fifties were all of this character. The Budget Act of 1974 was in this tradition.

The roots of consensus in 1974 were varied and complex. The interplay of many factors, within the Congress and between it and the Executive, all contributed to the creation of an unusual climate. Had that climate not existed, in all probability budget reform would have been aborted. Had the budget reform taken place against a background comparable to the earlier naked power struggles, it is highly unlikely it would have succeeded or, if it had, a large residue of bitterness would have been its legacy. The "losers" in such a struggle would have been looking for the first opportune occasion to reverse or subvert the decision.

A brief examination therefore of the special factors which nurtered consensus in 1974 is in order. If for no other reason, it is vital that we appreciate the historically unique confluence witnessed in 1974. Certainly it was unprecedented. To predict its recurrence in the event of failure for the 1974 legislation, would be rash indeed.

Near unanimous approval was accorded the Congressional Budget Act when the roll was called in both Houses of Congress. This display of approbation was in vivid contrast to each and every incident in the lengthy chain of

controversies which resulted in its enactment.

The very manner indeed which Congress processed the Budget guaranteed conflict and irresponsibility. Ways and Means was charged with raising revenue, Appropriations, in theory at least, for spending. Taxes could be cut and/or spending raised independently. Any adverse effect resulting from the action of the one could be blamed upon the other. With the growth of backdoor financing, the Appropriations Committee lacked authority over a significant portion of spending. In addition, it seldom functioned as a committee. Rather, decisions were made at the subcommittee level, thus further contributing to fiscal chaos. Finally, budget authority, not outlays, was what was reported from the Appropriations Committee. Periodic ritualistic onslaughts slashing Appropriations bills always failed to result in a comparable reduction in outlays.

None of the above, however, deplorable or even irrational as it might be, made inevitable or even probable the 1974 legislation. Rather, it was a series of events transpiring outside Congress which in the end forced Congress to finally reform its internal budget procedure.

The Vietnam war was the initial event in that series. In 1967, President Johnson belatedly requested Congress to raise taxes for its prosecution. Time does not permit an in depth discussion of the ensuing conflict between the President and the Congress, or that in the House between the Appropriations Committee and the Ways and Means Committee. In the end, in return for its approval of a surtax, the Ways and Means Committee forced the President and the Appropriations Committee to accede to an expenditure limit. The President was charged with responsibility for its enforcement. He was authorized to impound funds previously appropriated. Similar legislation was enacted controlling

expenditures for the years 1969 through 1971. During the House debate in 1967, George Mahon, Chairman of the Appropriations Committee, warned Congress about the weapon it was placing in the President's hands. He argued that reduction of expenditures was the responsibility of the Congress and in delegating it to the President the House was shirking its Constitutional responsibilities. He prophesied future Presidents would use the weapon for policy implementation.

The expenditure limit was ineffective from the outset. Each year it contained exemptions for non-controlables, e.g., entitlements, transfer payments, interest on the national debt, etc. Over the years, additional programs with particularly powerful constituencies were able to gain exemption. Many programs were given off-budget status. Congress ultimately, because of President Nixon's gross abuse of impoundment, refused to renew the expenditure ceiling in 1971.

Vietnam however was certainly not the only outside event to be reflected in Budget battles within the Halls of Congress. There was sharp disagreement in the country as to the proper order of national priorities. More and more participants were drawn into the Budget battle. This Budget battle also took place against growing economic stagnation. The number of claimants upon the national economic pie was ever greater, yet the pie failed to grow. Increasingly, sophisticated combatants entered the Budget lists to defend or expand Federal financing largess to their area of interest. The near monopoly over information once enjoyed by the Ways and Means Committee and the Appropriations Subcommittees in fiscal matters ceased. The legislative committees and constituency groups with whom they were closely allied developed the staffs and expertise to challenge Appropriations Committee decisions on the House Floor. With growing frequency as a result, the House refused to accede in the traditional manner to spending

decisions of a conservative dominated Appropriations Committee.

1972 saw the Budget battle between President Nixon and Congress escalate to an unprecedented level. Comity between the Executive and Legislative branches all but disappeared. Comity is that necessary antidote developed by politicians to the rigidity of independent tripart government. A commitment to "the system" is mandatory. It also requires the ability and willingness to agree as to what is to be disagreed about and the manner that disagreement is to be contested and settled. Failure to comprehend and honor this tradition was Mr. Nixon's gravest transgression and, in the end, cardinal in his undoing.

President Nixon exercised the veto power with injudicious frequency. In 1972, he disapproved no less than 16 bills, 12 after adjournment. Those vetoes included several appropriations bills. Increasingly, he claimed and exercised the right to impound funds appropriated by the Congress. On October 17, 1972, he flatly stated should Congress override his veto of the water pollution measure, he would refuse to spend the money. Impoundment was used to impose Presidential policy views as against those of Congress as to health, education, housing, agriculture, and the environment. The President justified impoundments on the grounds that Congress, with its separate spending and taxing procedures, was incapable of acting in a responsible fiscal manner.

Emboldened by his landslide reelection victory, the President in his January 1973 budget message made clear his intent to utilize his alleged impoundment authority on an ever greater scale. Impoundment is extra constitutional. It has no role in the American political process. Congress had no choice but to develop a mechanism for dealing with it. As a practical matter however any such mechanism could provide but a partial answer. Lofty constitutional questions could not be isolated from mundane fiscal management. It would also then be

necessary for the Congress to put its own fiscal house in order.

In its closing hours, the 92nd Congress had established a Joint Study Committee on Budget Control. Thus began a 20-month examination of the Congressional Budget Process. It was to end with President Nixon's signature on the Congressional Budget and Impoundment Control Act on July 12, 1974.

Viewed in retrospect, it might appear that the 1974 budget legislation was but an inevitable and logical outcome of what had preceded. Such was not the case. The Budget Act's legislative path was replete with junctures opportune for its derailment. Perfectionism and parochialism alike ever threatened success. Either a simplistic proposal or unimaginative bill management would assuredly have resulted in the hour slipping by without fruition.

The Joint Budget Committee saw as its mission the development of coordinating procedures between spending and revenue committees. Other areas were thus ignored. The Ullman bill, embodying its recommendations, would have guaranteed interment of budget reform. Proposed budget committees were to be dominated by senior appropriations and revenue committee members. The House Appropriations Committee would have been relegated to the ministerial role of financial clerk. The political philosophy of the House Budget Committee would automatically have been markedly to the right of the general tenor of the House. The early imposition of a spending ceiling in the Congressional session would have made it impossible for Congress to respond to drastic changes in the economy. Legislative committees saw several provisions as inimical to their vital interests and coalesced in opposition. Not without justice this measure came to be identified as a conservative proposal. Forced to choose between the Ullman bill and inaction, the latter result was a foregone conclusion.

The Ullman bill on April 18, 1973 was referred to tne House Rules Committee. There in the ensuing seven months the measure was to be entirely recast.

Before turning its attention to budget reform, the Rules Committee of necessity had to consider the vexing question of impoundment. Demands for a Congressional response to Presidential defiance had now reached a crescendo. Constitutional scholars branded the President's claim of either inherent or statutory authority without foundation and his actions as unconstitutional.

The Committee in the end however for strategic reasons sidestepped constitutional questions. A number of cases were pending in the federal courts. In addition the chances for legislative success would be enhanced by its avoidance. The Committee reported and the House approved legislation establishing a mechanism by which Congress might deal with this vexing usurpation of power. The 254 to 164 result (7/25/73) was perceived as a liberal Democratic victory.

With passage of anti-impoundment legislation, the Rules Committee turned to budget reform. I had agreed, at Speaker Albert's request, to serve as bill manager. The Speaker and I were in accord. This was an historic moment to be exploited. A measure enjoying near unanimous approval was mandatory. With bipartisan support we succeeded in fashioning such a product.

As cleared by the Rules Committee, the new Budget Committee was not to be dominated by those serving on the spending and revenue committees. Enlargement, rotating membership and a bar against appointment by seniority would make it more flexible and representative. The First Budget Resolution was to contain targets rather than ceilings on spending, revenue and debt. The Appropriations Committee and the authorizing committees would continue to function as before.

The hour of truth for Congress was to be the Second Budget Resolution when ceilings would be established. This would be enforced when necessary by a

reconciliation measure. A reconciliation measure could contain provisions increasing revenue or the debt or reducing previously provided spending or any combination thereof.

The objective of the legislation was not the implementation of a particular fiscal policy, e.g., a balanced budget. This point cannot be over emphasized. Rather, it was to force Congress to be responsible.

Should economic and political factors dictate more or less revenue or more or less spending, the Congress was to be free to adopt the desired policy. The budget process could reduce federal spending, as spending ceilings had never done, were this policy desired. It was not however automatic.

The revised bill reflected my lifelong suspicion of rigidity and ideology. I was moreover fully cognizant of the failed efforts of unrealistic budgetary reform in the 1946 Legislative Reorganization Act. The evidence was obvious. Any budget process, whatever its theoretical merits, would be doomed if it straitjacketed Congress. Congress is a political institution. It will not permit its consstitutional mandate to provide for the general welfare and common defense to be thwarted by any process. If the Congress must choose between responding to an overwhelming demand for action and a rigid budget process, that budget process will be junked or subverted. Failure to recognize this would have been folly.

With a view to further conservative-liberal balance, the budget and anti-impoundment measures were joined in an omnibus bill. Republican efforts on the House Floor to delete the anti-impoundment title were defeated almost 3 to 1. The omnibus bill passed on December 5, 1973 by a vote of 386 to 23. The essence of the Congressional budget process as contained in the House version was embodied in the Conference Report and approved by the President seven months later.

1974 witnessed, through a fortuitous combination of controversy, logic and good fortune the long overdue success of budget reform. We may now, I fear, be viewing the beginning of the end of that same budget process.

Prior to 1980, the budget process had performed substantially as its authors had contemplated. Its achievements were significant. It forced, admittedly imperfectly, the Congress to look not only at the budget, but also the economy in its entirety. Every prospect existed that we might become increasingly sophisticated in utilizing the budget process, i.e., the segregation of capital investment from current outlays.

Of vital importance, however, it had survived. It had every prospect for future survival. This survival most importantly was not dependent on any particular political climate. The budget process was viewed as neutral.

This year the budget process is unfortunately becoming ever more closely identified with the immediate legislative objective of political conservatism. Inevitably, I fear, should there be a change in the nation's political climate dictating a change in policy, the budget process will suffer. A budget process which has become identified as inimical to progressive objective and a part of the conservative credo will suffer from the political rejection of conservatism.

I now turn to the focus of the current hearing, the Reconciliation process. 1980 witnessed the first manifest break with the intent of the legislation. The Reconsiliation process was used in connection with the First rather than, as had been intended, the Second Budget Resolution. The political if not the economic climate, appeared to call for a balanced budget in the First Budget Resolution. This could be attained with credence only by a reduction in entitlements, previously authorized by the legislative committees, pursuant to the First Resolution.

This year the Budget Resolution as rewritten on the House Floor by the Gramm-Latta amendment went one step further and instructed the legislative

committees to reduce previously approved authorizations for appropriations for 1982, and 1983 and 1984 as well. The legislative committees in drafting reconciliation legislation in turn have used it as a vehicle to change or extend substantive legislation. In its final version, reconciliation was utilized to substitute block grants for categorical programs. The reconciliation process is being exploi' ' for purposes never envisioned by authors of the 1974 legislation.

What we saw played out in connection with the reconciliation bill is, I fear, all to symptomatic of serious cancer in the American political process. Members of Congress have as their primary duty, that of legislating. The Congress is a co-equal branch with the President of the Government. Political parties, it is true, were devised to bridge the gap between the Executive and the Legislative. A Democratic Congress in general will share the same political values as a Democratic President, as will their Republican colleagues those of a President of their party. But party members should not feel compelled to give their automatic approval to a legislative program merely because they are in accord with its philosophical objectives. That in essence was the great deficiency, yes tragedy, in the relationship between Lyndon Johnson and the Congress as regards Great Society programs.

President Reagan and the Republican Congressional leadership have carried this unwise method of operation yet further. Why, this reasoning goes, invest all of the time and effort in the often admittedly slow and painfully deliberative process of considering, weighing, modifying, and compromising specific legislative proposals? It is so much easier and neater to attach them to the reconciliation bill. That the initiation, extension, or termination of a program may have no relationship to the purpose of a reconciliation measure makes no difference.

A conservative President and a conservative Congress are in accord as to the desired end, a drastic contraction of the public sector. Let us not quibble over means. Such reasoning is most seductive indeed.

Authoritarianism is always seductive. Because of Nazi Germany, authoritarianism suffered a setback in the forties from which hopefully it will never recover. There are those of us however who remember still another time when supposedly "respectable" authoritarianism was seriously considered in high quarters. Leaders in business, the military, and certain intellectuals, proved susceptible to its virus.

The exploitation of the Reconciliation process, coupled with draconian Republican party discipline, enabled the Executive to unilaterally impose its will in near totality on the Congress. Superficially, this exercise may have resembled parliamentary government. Under our system, however, as the Executive is not drawn from members of the legislature, it is a potent recipe for despotism.

Those of my colleagues, without regard to political philosophy, who would permit Congress' role as a legislature to atrophy would be well advised to reconsider. If we are to be reduced to automatons permitted only to ratify a Presidential legislative agenda which has been premasticated by an all powerful Executive, the American people with some justice may very well address themselves to the question: Why should we support with our tax dollars this overly expensive anachronism?

Chairman ROTH. I have opening statements from Senators Jim Sasser and Carl Levin which I would like inserted into the record at this point.

[The prepared statements of Senators Sasser and Levin follow:]

OPENING STATEMENT OF SENATOR JIM SASSER

Good morning, I want to commend Chairman Roth for holding these oversight hearings on the budget process.

I do not think that it is an exaggeration to say that the Congressional Budget Act is probably one of the most significant pieces of legislation that has ever passed the Congress.

Prior to the Budget Act, spending and taxing bills often went their separate ways, and there was little effort to have a coordinated budget policy. And with the exception of a few Congressman, I daresay that the average Member of Congress had very little comprehension of the overall budget.

The Congress was stirred into action by the efforts of President Nixon to impound Federal appropriations in contravention of the Congress' constitutional authority to appropriate funds in order to ". . . provide for the common defense and general welfare of the United States . . .".

I was most pleased to see the Senate reject the recent amendment to the debt limit bill that would have restricted this congressional power by a vote of some 84–15. The Congress must be ever vigilant in controlling spending and taxing policies. But it must take that responsiblity on directly as the Constitution states and not hide behind an all-powerful President to do its work.

But, however successful the Budget Act has been in bringing about a more accountable and open budget process and guarding against Presidential usurpation of congressional spending and taxing powers, this is the time for a review of the act in all its facets.

There are a number of questions that must be asked about the Budget Act.

First, we must carefully scrutinize the impact of reconcilliation on the Budget Act. When this act was first passed, the Congress was very careful to guard against making the Budget Committee a "Super Committee". But in the most recent experience with reconciliation, the committee system was strained to the limit. The American public was treated to a real spectacle in the House of Representatives when the name and phone number of a Congressional Budget Office analyst was contained in the original Gramm-Latta bill which was fashioned in the back-rooms of the Office of Management and Budget rather than the open committee rooms of Congress. That is a spectacle we should not allow to occur again. So we must carefully examine how frequently and under what conditions we should use the reconciliation process in the Budget Act.

Secondly, we should give careful consideration of the timing of the concurrent budget resolutions. Right now we have a crush of appropriations, taxation, and budget bills all competing for attention at the end of our fiscal year. And quite frankly, the Congress can not always give its undivided attention to the budget resolution. Consequently, we might well consider giving less attention to the first budget resolution and aiming at passing a binding budget resolution before the August recess as the basic guide to our appropriations process.

In that way we could make the reconciliation process work as it was intended and not encroach on the spending authority of the Appropriations Committee.

Finally, we should provide for a "fiscal note" process that would detail the costs of Federal legislation to State and local governments. In the recent reconciliation process, it is estimated that Federal aid to State and local governments may have lost some $12 to $15 billion in Federal aid. But they have had little advance notice of where they were going to lose this Federal aid and very little, if any time to compensate for such aid reductions.

That, Mr. Chairman is not good intergovernmental relations. And we have the opportunity, if we pass the State and Local Fiscal Note Act, S. 43, which I have introduced along with 26 other cosponsors and which has been favorably reported by the Senate Governmental Affairs Committee on July 30 to make a positive amendment to the Budget Act.

With this legislation, the Congress will understand the impact of the budget on Federal, State, and local fiscal policies—a very important consideration during these times of fiscal austerity.

OPENING STATEMENT OF SENATOR CARL LEVIN

I am troubled by the use of the reconciliation procedure as part of the First Budget Resolution for three reasons:

First, as a matter of statutory language interpretation, it seems clear that reconciliation was never intended to be part of the First Budget Resolution. The Budget Act of 1974 set out a detailed procedure for reconciliation in the context of the Second Budget Resolution. Therefore, the authors of the legislation knew how to draft reconciliation language. That strongly suggests that the reason why the Budget Act did not specify reconciliation as an element of the First Budget Resolution was that they did not intend it to be part of the First Budget Resolution.

Second, I furthermore believe that it is illogical to have reconciliation in the First Budget Resolution because that Resolution sets non-binding spending targets. It is illogical for the same resolution to include binding reconciliation instructions designed to bring spending within those non-binding targets. What we have done, in effect, is changed the non-binding targets into binding ceilings. As a result, the appropriation and authorization committees now have to adjust their actions to the Budget Committee's lead as set out in the First Budget Resolution, instead of the Budget Committee's having to adjust the Second Budget Resolution to accommodate the other committee's actions taken from May through September, as was originally intended in the Budget Act.

Third, reconciliation didn't belong in the First Budget Resolution to begin with, and now it is expanding its reach. Furthermore, I believe that this expansion is inconsistent with the intent of the Budget Act. The managers of the conference report on the Budget Act distinguished between the "enactment of budget authority" (entitlements and appropriations) and the "authorization of budget authority" (entitlements and appropriations) and the "authorization of budget authority" (authorizations). At the same time, they said that the language which is now used to allow reconciliation in the First Budget Resolution, did not give the power to the Budget Committee to mandate changes in authorizations for budget authority. By reconciling authorizations as part of the First Budget Resolution for fiscal year 1982, the Congress went beyond their intent.

Chairman ROTH. At this time, I am delighted to call forward the chairman of the Senate Budget Committee. I want to start out by both thanking and apologizing to him. As he knows, because of conditions beyond our control, we had to delay these sessions. I appreciate his affability in meeting the revised schedule.

I might say for everyone here that Senator Baker has announced on the floor that President Sadat has died.

Senator Domenici, I would personally like to pay my respects to the leadership you have provided in this budgetary area, first, as a member of the committee, but more importantly as its current chairman. I don't think the whole process, which, as I have already said, I believe to be a very giant step forward in the legislative process, could have happened if we had not had strong leadership from the chairmen, first from Ed Muskie and now by you. I congratulate you and express my thanks for this leadership. Without saying more, I invite your comments.

TESTIMONY OF HON. PETE V. DOMENICI, U.S. SENATOR FROM THE STATE OF NEW MEXICO

Senator DOMENICI. Mr. Chairman, I have a rather detailed statement which I would ask you to make a part of the record. It covers 8 or 10 areas that I would not talk about with you at this point, unless you want to question me on them.

Chairman ROTH. Without objection, it will be included as if read.

Senator DOMENICI. I do have brief opening remarks but listening only to the conclusion of the distinguished Congressman's remarks—I was here only the last 10 minutes—I would just make a couple of quick observations.

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The Congressman is a student of our institutions and has suggested a number of reforms that are internal to the House or the Senate, one a recognition of the special interest nature of the committees and the evolution of that and his suggestion as to how we ought to change that. I think if we wanted, Mr. Chairman, to go through a litany of changes, procedural and otherwise, that each of us individually might formulate as we look at the problems we have in fiscal control, we would have a litany as long as this hearing table of things we should do.

But I would like to state that those deficiencies have been known for years and the problem is that we cure one and another one occurs. So it appears to me that what we have had in the use of the budget process, first in its adoption which was historic and second in the use of it, and contrary to some allegations that it is moving us toward fascism or that it is evidence of some kind of superman activity, is a process which we have just gone through which was very democratic. The result might not be liked by people but I remind you, Mr. Chairman and members of the committee, that at a number of points in this process, there were opportunities to vote.

The committee had to vote by a majority, the Senate had to vote by a majority, the House has its rules to clarify and purify what it will vote on, and nonetheless, this process, and reconciliation, which seems to be the cornerstone of the concern, were all voted in in a very democratic manner.

I think that occurred because it is perceived publicly that the American people are not interested in our procedures when we have reached the point of being unable to control our budget, and but for that kind of public sentiment, we would not have received the votes regardless of what procedure we used.

I would also for the record like to indicate there are ample opportunities for this institution—speaking only of ours, Mr. Chairman—for the Senate on the floor to decide that a reconciliation bill needs changes made to it. I would remind you that section 904 provides for a nondebatable motion to waive the rules on the floor, that is to waive the process and to proceed to divest a reconciliation resolution or bill of its protections. That has not occurred in the past, but I would just remind the committee if it gets to the point where a reconciliation instruction is not accepted and the Budget Committee is viewed as acting outside the will of the majority, the safety valve is there and it is very adequate.

It requires a section 904 motion to waive the procedural of the Budget Act and thus specifically or generally divest that resolution or bill of the mechanisn that gives it strength.

Having said that, Mr. Chairman, I don't think I would even proceed with my shorter statement other than to tell you that having experienced this rather historic Budget Reconciliation Act and its effects on the policies of this country and the institutions, I would be the first to tell you that in due course we ought to amend the Budget Act. I don't think we ought to amend it next week. I would tell you forthrightly I don't think we ought to amend it until we have had a little time to let the process and procedures that we have used gain a bit of vintage. But, I would be the first to tell you, for those who say it is too powerful, I am quick to tell you that

without reconciliation, it is too weak. I am not saying that for myself. I am saying that for those, such as you, Mr. Chairman, and certainly Senator Chiles who has spent years on this committee trying to make fiscal restraint come into reality, that if you rid this process of reconciliation as a tool and leave only aggregate spending limits as a measure of points of order, if you continue to make it cumbersome by having two resolutions of the type we have, and, if we don't do something about multiyear appropriations on a selective basis so as to add some strength and continuity to those kinds of appropriations that need continuity, I would suggest that if we weaken the reconciliation process and don't strengthen the rest, we will not have a budget process. We might just as well have a group of Senators stand around and listen to economists and the administration and put a little billboard up on the Senate floor and say this is what we are trying to do.

I think if we dismantle reconciliation, the budget process itself would go the way other fiscal control attempts over the last 35 years when a lot of people tried to do something but very little got done.

I would be pleased to answer any question you have. I do want to close by saying I think regardless of the weeping and gnashing of teeth, that the proof is in the pudding. For those who say it shouldn't have been done, or that there are things we ought to change, the truth of the matter is we haven't done anything to change the process. But this time we used the process that was available and changed fiscal direction. I can understand that there would be a number of people who would say we should not have done that, but I don't think we should be fooled into thinking that the process should be done away with.

I think we should take the criticism for what it is. Those who are most in anguish over this process really would not want to see the fiscal policies of this country changed dramatically.

I would only close by saying I am firmly convinced that the time was right to change fiscal direction dramatically. If I were to state for you my views having served on the committee for a number of years prior to this, what we were trying to do in the Congress in terms of economy, I would categorize it as a valiant exercise, in gradualism. We would cut $1 billion and then we have a little problem and we would put $2 billion back. We changed the tax code slightly and then we let inflation just eat up all of the savings that we thought we effected. So, if anything, we were festered with gradualism. The time arrived and, I repeat, when a compelling majority in the U.S. Senate and, as it turned out, a rather significant majority in the U.S. House voted to dramatically change that direction.

For those who would think it is not democratic, it would appear to me that it might not have been democratic with a large D, but I think it was democratic with a small d in spades because this didn't pass without votes; it didn't pass without the normal purifying activities of the House's procedures. It did not pass without this U.S. Senate, taking it up and voting on amendments to it, although subject to 20 hours debate. Notwithstanding that limitation, nobody was cut off from offering amendments.

In short, all those who wanted to attack the reconciliation bill had their day, as you know, Mr. Chairman.

So I think we used the procedure as we found it. I am not saying it is perfect and I am here to tell you in due course we ought to collaborate to make it more effective, not less. And in doing that, we certainly have to address the notion of reconciliation and we certainly have to address many of the concepts that are in the many bills that have been introduced to amend the Budget Act.

I would merely close with one last remark, for those who say the budget process was abused and should not have been used as it was, I would just cite not verbatim but a distinguished colleague of yours and mine, Senator Ribicoff, who has been heard to say and for quotation that the process is finally being used as it was intended to be used. With that, I would ask that the shorter statement which I did not read be made a part of the record and I will be pleased to answer any questions you might have.

Chairman ROTH. Without objection.

Senator Domenici, there are a few questions I would like to ask in connection with reconciliation. It seems to me there is no question but that it puts teeth into the budgetary process, that it has been the vehicle by which a new administration is able to make a pronounced change with the approval of Congress in fiscal policy. For that reason, I think those who criticize it do have an obligation to come up with some kind of an alternative because the basic criticism in recent years, in both Democratic and Republican administrations, has been that decisionmaking in Government has come to a standstill, that it is impossible, really, to get Congress to move on major problems facing this Nation.

Before you were here, I think I mentioned an article along these lines by Lloyd Cutler. As I have said, this is a matter of concern to both Republicans and Democrats.

Having said all that, I think there are some areas of concern, legitimate concern, with respect to reconciliation. I suppose the basic one is how far should that vehicle be used to make major changes in substantive legislation? I can say, as I said earlier, that there was great consternation on the more conservative side a few years ago when the process was going to be used to adopt a superfund. So it is not a philosophical problem. I think it is a question of procedure. The question I would ask you is, is there any in between way so we can perhaps avoid this vehicle being used to adopt major controversial legislation under very simplified procedures, or should we continue as we have in the past?

Senator CHILES. Mr. Chairman, before he answers that question, I am going to have to leave and I wonder if I could interrupt for a moment to raise my voice also with yours in welcoming Chairman Domenici to our committee and also to express my appreciation for the outstanding work that he did in the formation of the policy that led to the adoption of the Budget Act to start with, and then through the infancy years as the committee was struggling to try to maintain its existence and now through his superb leadership as chairman of the Budget Committee and to express my regret I do have to leave but certainly thank you for your statement and your thoughts in this area and will certainly give full consideration to those as we go forward with our hearings.

My understanding is the Budget Committee itself will be holding hearings later on the act itself. I thank you for your indulgence.

Senator DOMENICI. Mr. Chairman, might I just respond to Senator Chiles and then I will answer your question which I think basically addresses the issue of extraneous material being included in a reconciliation bill and I have some thoughts on that. Might I first say in response to your comments, Senator Chiles, that we have now served on that committee for a number of years together. I want to reciprocate and compliment you. You have been in the vanguard year after year of trying to utilize this process to encourage restraint.

I am reminded that as a member of the Appropriations Committee along with Senator Hollings who is a member, Senator Bellmon, who was a member of the Appropriations Committee, that you joined with Chairman Muskie in the first major effort to reconcile, and that was done in the first budget resolution, and the authorizing committees were instructed in that resolution.

One might argue as to the texture and nature of that reconciliation because its focus was much more limited, as I recall, in that first go around. But that was also done in an era and a time, if I recall right, when things were out of control. The projections which the then majority and the then President had published as to what the budget was going to look like was were moving dramatically away from the hypothetical balance to some significant deficits.

Not only were you in the vanguard then but you were in the vanguard on another issue and that is that you can't control budgets in 1 year. On that point you established an excellent precedent in my opinion, that as to those items that were reconcilable, they could be reconciled on a multiyear basis.

I would also want the record to show, and I think you will agree with me, that those from the other body who were most worried about extraneous material during this year's reconciliation work were the foremost proponents of putting extraneous material in the 1980 reconciliation bill. I clearly recall that the other body wanted to reauthorize so as to eliminate the opportunity for a new Congress to address two or three very important programs. Some have apparently forgotten that experience, but you and I had to live with that, too.

You and I also remember going to the floor and being told not to raise a point of order because if we did, we would just fuzz up the issue. So what we said was, by not saying anything, that we did not agree that extraneous material could be in. So I want to compliment you for your actions in that regard as well. Thank you very much.

Mr. Chairman, with reference to the use of reconciliation, in terms of extraneous material, that is the inclusion of a whole new reauthorization or a legislative change that is not relevant to the goal of budget reductions, first I think the record is pretty clear that the U.S. Senate has not—has not—established a precedent that that kind of clearly extraneous material is privileged under a concurrent budget resolution or under an omnibus reconciliation bill that flows from it. Quite to the contrary. The record is clear that while we permitted a vote on material called extraneous by certain Senators, and while we did it within the context of the pro-

tected debate and time limitations, the stipulation on the floor of the Senate was that it was not subject to time limitation, that it was not protected as to germaneness under the resolution and that we would and did proceed by unanimous consent to agree to a time limit.

So we protected this institution. If the time arises that significant extraneous material is in a resolution or omnibus reconciliation bill, we can take to the floor the issue of whether it should be protected by limited debate and germaneness, which is really the protection——

Chairman ROTH. If I understood your answer, you are saying that any new authorization is extraneous. What deauthorization——

Senator DOMENICI. No, I would say, Mr. Chairman, any legislation in response to a reconciliation mandate that does not clearly save money would be extraneous. So deauthorization——

Chairman ROTH. Let's assume it saves money.

Senator DOMENICI. Deauthorization would be clearly within the prerogative of an authorizing committee as a mechanism for accomplishing the mandate. Mr. Chairman, when the hue and cry is raised about a reconciliation bill and it is said that the authorizing process is being frustrated, the truth of the matter is that the authorizing process is being vindicated in a reconciliation mandate; albeit that there is a legitimate complaint that it is done under a very short time frame. You see, when you tell an authorizing committee to achieve budget reduction goals established by majority vote, in this case an overwhelming majority vote for the resolution which included the conciliation instruction and you further say to that authorizing committee, for instance, the Senate Environment and Public Works Committee, which has jurisdiction over the Corps of Engineers. That programs under its jurisdiction should be modified so as to save hundreds of millions of dollars it is the committee of jurisdiction which must make the programmatic decicions.

When that committee charts legislation putting a cap on or deauthorizing a portion of the Corps of Engineers authority, they have been put back into the action, contrary to what is being said. They originally created the authorizations and, to save money they are being told to choose between a myriad of programs within their jurisdiction, to change the law so as to procduce savings, They might choose to deauthorize an entire program or modify it in any number of ways. What is forgotten is that the authorizing committee started that program, albeit, as the good Congressman said, we have departed immensely from the authorizing process because it has been affected by special interests. When you get a new Congressman and he comes from a district with a lot of Federal workers, what committee does he want on? The committee that governs their pay and the committee that governs their pensions.

Reconciliation gives back to the authorizing committees the power to make fiscal policy changes. Let's say savings required is X millions of dollars. The authorizing committee is put back into the act by reconciliation. This is far better than laying it all off on the appropriators and telling them to do the job. So deauthorizing is in order, in my opinion, if it saves money; caps are in order, if they

save money. Again, all of those are clearly within the prerogative of the entire institution to reject when they are looking at and voting on the reconciliation bill.

Chairman ROTH. I share your concern that to have enforcements you almost have to affect programs. It seems to me that is what you are saying. At the same time, would it be possible that reconciliation could make savings, but any permanent changes in substance would have to go the regular legislative route?

In other words, through the reconciliation, the committees could make reductions in the cost for those programs, by whatever means appropriate. I think an important part of that approach would be nobody could sue to recover that, but any long-term permanent changes in a program might have to go through the regular legislative process.

Senator DOMENICI. Mr. Chairman, it is pretty difficult to answer that question in general, but let me try to limit it and then tell you the big problem that I see. First, the question seems to focus on the appropriation process. It would seem to me what we would be saying is that for appropriated programs—ones for which you now suggest we should make temporary but not permanent changes—that if there is not a mechanism to move the authorizing committees in the direction of making the law changes, you have put all the risk, all the burden on the appropriators. This year, you could have said "We think the appropriators should save $20 out of $35 billion. But there isn't going to be any programmatic change forced on you by anyone. You just find a way to cut $20 billion out of the programs as they are presently authorized and structured."

It is my honest belief without looking at the substance of the laws—I think if I looked substantively at education and some of the others, I would even have a stronger answer—I would think they couldn't cut because of the formulas and other requirements of the law, particularly for quasi-entitlements. But I think from a practical standpoint, to put all that burden without substantive law changes on the appropriators is to ask them to do the impossible.

That is not to say they haven't done a fantastic job in the first round of rescissions, and I have the greatest confidence that they will continue to do it. At least in the Senate most of the appropriations bills are under the first resolution targets and we have a whole new ball game in terms of what the targets are going to be now.

I would say, however, that we know the biggest part of the national budget is the entitlements and, Mr. Chairman, there is no purpose served in an end-of-the-year reconciliation instruction ordering changes in entitlements unless one clearly envisions that the committees of jurisdiction are ordered literally to change entitlement language. To expect entitlement changes without changing the substantive law is to demand the impossible.

Inevitably, program beneficiaries will bring lawsuits to collect their entitlement if Congress tried to say we are simply not going to allow spend out of money to pay the entitlements.

Chairman ROTH. That could be taken care of.

Senator DOMENICI. Indeed, but the committees would have to do that either on their own or be subject to some mandate if you want to reach a specific level of cash outflow.

Chairman ROTH. Let me turn to a couple of other areas and get your comments. I think Alice Rivlin said in testimony before one of the committees, that the biggest problem with the process is that governmental leaders make so many decisions that they cannot take time to look at the overall picture. As I said in my opening remarks, I think one of the concerns of many people is the whole process has become so fragmented.

For example, this year and I am not picking on this year because it is typical of the past, but we are here in October and all the appropriations bills are still not adopted, and the second budget resolution is not yet adopted. The Congress has been spending most of its time this year on budgetary matters but nobody back home, and I am not going into the newest requests of the executive branch, nobody at home yet knows really what they can anticipate, and this certainly plays havoc with their budgetary planning.

I agree with you on the multiyear budgeting. That is something we ought to look at carefully. Would it make any sense to have at least a 2-year budget process, at least a 2-year authorization and at least a 2-year appropriation so that 1 year could be devoted to budgetary financial matters, the second year to authorization oversight and maybe deauthorization.

Senator DOMENICI. Mr. Chairman, I think there are a number of pieces of legislation pending to address part of that—specifically to make parts of the appropriation process extend over 2 years. I think the distinguished former Senator from Oklahoma, Senator Bellmon, first suggested perhaps 3½ years ago, maybe 4, that we ought to go to 1 year for authorizing oversight and 1 year for appropriating with only emergency appropriations occurring more often than in the appropriation year.

I frankly think we eventually are going to have to move at least parts of the appropriation process that way. I do not really know the overall ramifications on the second part of your question as to authorizing legislation. We should have more time to consider the substantive laws of this land which are authorizing laws. But whether they should be 2 or 4 years, Mr. Chairman, just a cursory look at the various authorizing laws indicate they go everywhere: Some others for various specified periods; extend forever. Some have specified levels of authorizations, others are openended—meaning as needed or as much as can be appropriated. I would suggest that this patchwork quilt pattern of authorization doesn't make very much sense.

I don't know how we would address it, but there isn't much consistency in the way we do it today. We are even getting into the process where we appropriate without authorizations. I think that is because of the difficult times we are in and we don't have enough time to do any of it right. I do have in my statement, however, a quote from the former chairman of Appropriations, Senator Magnuson, who was known for many things, but one was his lack of admiration toward the budget process, although he served on the committee. He indicated appropriations ought not to be used very frequently for funding programs that are not authorized.

I think because of the muddle we have gotten into, the need for continuing resolutions and the impetus to just get things done. The

problem Senator Magnuson warned against it is getting more frequent rather than less.

Chairman ROTH. It does seem to me there is some merit, at least for careful examination, of trying to use 1 year, essentially, for the budgetary process, including the appropriations, and the second year for authorizations, oversight and sunsetting.

I have two more questions I would like to ask you. One of the concerns that has been expressed by some individuals is that the concurrent resolutions involve too much detail, that they really infringe upon the appropriation process. I would ask you to comment on that and ask whether there is any merit to the suggestions made that it should be broken down by percentages, instead of specific dollar figures so that your function is kept separate and distinct from that of the Appropriations Committee.

Senator DOMENICI. Mr. Chairman, aside and apart from the reconciliation part of the resolution, which is a separate part of the resolution, I do not perceive that the resolution itself is heavily burdened with details. Most of the details evolve from what is known as the 302 crosswalks which flows naturally from the functional total to make allocations to committees. That is not done unilaterally by the Budget Committee.

We follow the pattern established a few years ago for the executive and we budget by function in the resolutions.

The functions are not consistent with the committee assignments, nor are they consistent with the subcommittees of the Appropriation Committee. Therefore, you must take parts of a function and assign them to different committees. The total assigned to a committee becomes its in-house limitation. It is cumbersome; it is not terribly effective because it is cumbersome. And then, Mr. Chairman, it becomes still more tenuous when you couple this crosswalk procedure with the enforcement mechanism which is not function by function, and is not bill by bill, but rather relates only to the total budget. In other words, at present, a bill is subject to a point of order on budget grounds only if it would cause spending in excess of the total amounts provided in the second budget resolution, taking into account all previously enacted legislation.

Now that presents a very serious dilemma as we look, together with all of those interested, at how you solve that problem. Obviously we want to do our business our own way. We don't want to have the budget process dictating to the Subcommittees of Appropriations. On the other hand, there may need to be some consideration given as we move through this review of the Budget Act to some kind of points of order at some lower level of aggregation as contrasted with the existing aggregate point of order which, as you personally know and have discussed with me have been a rather ineffective mechanism. What we normally do is wait and appropriate defense last, at least historically, and to the extent we exceed the aggregate totals—and a point of order is not raised against the defense bill—that, coupled with entitlements, has been just wrecking the aggregate totals.

Chairman ROTH. A final question. Congressman Bolling suggested that the setting of the budget was primarily a leadership role which was accomplished on the House side primarily through their Rules Committee.

The suggestion has been made on this side that perhaps there is not enough input from members of the various committees, including Appropriations. Would you see any merit in possibly expanding—I know we all shudder at the thought of expansion—of a casting, down the road, some different makeup of the Budget Committee. For example, what do you think of having as members of that committee, chairmen and ranking members of key authorization and other committees so that it in a sense represents the leadership role.

Senator DOMENICI. I think it kind of depends, Mr. Chairman, on what one wants to do. I am reminded, as you know, Mr. Chairman, that we had a rule in existence when I decided to stay on this committee, that was commonly known on the Republican side as the Bartlett rule, which applied just to us and just to the Budget Committee, which precluded us from having more than one member of Finance, and one member of Appropriations on the Budget Committee, and then other than that one designated member, prohibited a Budget Committee member from being on either of those two committees or Armed Services or Foreign Affairs. I don't know why those committees were singled out; because they were commonly known as the big four, I guess. That has been changed so that there can be a much better mix, if that is what we want, more appropriators and more Finance members on Budget, for example. I happen to have gotten caught in the middle. I had to make a decision when the rule was contrary and consequently for better or worse I am on none of those four committees.

Chairman ROTH. I might say the reverse happened to me.

Senator DOMENICI. Yes, but I am reminded the distinguished Senator from Texas, Senator Tower, said to me, hopefully in jest, "Well, Domenici doesn't have any major committees of jurisdiction such as Armed Services, and, therefore, he is at liberty to suggest that everybody be cut."

I don't know what that means, but it may be somewhat of an answer to what you are saying.

I think, on the other hand, that without us trying to structure this as a leadership exercise, as the House obviously does, you cannot proceed with a dramatic change in fiscal direction without the product of the Budget Committee ending up being a product that the leadership supports. That happened this year, as you well know. Without it we would not have succeeded. I think it just follows naturally from the procedures which were used to get that budget resolution and the reconciliation bill approved. These actions were not in a vacuum. They were done in conjunction with the leadership. That is not provided for in the statute but it is the reality.

I know of no way to make that better by changing the makeup or the mix of members on the Budget Committee. You will recall, Mr. Chairman, that there is a mandatory up-front input from all the committees before we ever start our markup. When you were on Budget with us, everyone had to run around by March 15 to conduct hearings and send us their recommendations. That provides an almost unreasonably short period of time after the session starts. That was this act's, the Budget Act's, effort to assure the input from the committees.

Since it is nothing more than a recommendation, few official hearings are now held by the committees nor do the committees make any real indepth analyses to support their recommendations. I regret to say the end product has turned out just to be something procedurally you must have but for the most part it is ignored.

Maybe we can address that some way and make it a more important part of the process. That would have to be a two-way street. I think the goals would have to be explained to the other committees so they could then try to fit their recommendation within the context of the overall budget.

Senator MATTINGLY. Let me ask you a brief question. I know you have been talking about the reconciliation process. I suppose we are considering changing, for future use to whatever process we are talking about here; and I have heard some criticism of it and some good things about it. But irrespective of that, at this time in our country we have got a unique set of circumstances. We have a unique situation and an opportunity to make some dramatic changes—and I read Congressman Bolling's comments, which are probably on the other side of my belief's as he thinks what has been going on has obviously been detrimental to the legislative process—but since we have a unique economy, unique circumstances, we need unique action at this time.

I would just like to say, even though there are some criticisms of what the process may be, I think it is the only process we have got.

I would like to ask you one question about something I feel is important. Do you think when we go through this process of the budget and appropriations that we can ignore the entitlement programs in the next 60 days?

Senator DOMENICI. No, sir, I don't think there is any chance of getting where we ought to go in terms of restraint if we isolate the biggest component of the budget, the one that is automatic, and uncontrollable. I don't think we can effect the kind of savings that almost everyone contemplates, aside and apart from differences on the tax bill, was it too big, was it not. Additional fiscal restraints of a significant type having a real effect on where we are going, what percent we are going to be spending in 3 years, how much would it be growing, you can't do that without addressing entitlements.

Senator MATTINGLY. There will be no great decline in the interest rates or no controlling the budget, you feel, unless we approach entitlement immediately, is that correct?

Senator DOMENICI. I don't know what the Senator means by "immediately."

Senator MATTINGLY. Between now and November 20?

Senator DOMENICI. I don't know about November 20. I would rather say the end of the year. I don't think the Congress is going to be out of here by November 20.

Senator MATTINGLY. I am willing to stay if we take up the entitlement programs.

Senator DOMENICI. I would answer the question yes. I don't see any way we can avoid it. Whether we are going to do it or not is another question. If you are asking me my opinion just on money flow, what is controllable, what we have already controlled, the answer to your question is that we must take on the so-called uncontrollables more aggresively than we have up to now.

Senator MATTINGLY. Thank you.

Chairman ROTH. Thank you very much, Senator Domenici, for your very helpful, constructive statement. I think this is a matter we will all be looking at over a long period of time.

I look forward to working with you.

Senator DOMENICI. Thank you very much, Mr. Chairman. It is a pleasure to be here.

[Senator Domenici's prepared statement follows:]

PREPARED STATEMENT OF SENATOR PETE V. DOMENICI

Mr. Chairman, it is a pleasure to be here this morning to open the Committee's review of the reconciliation process.

As Chairman of the Committee on the Budget which shares jurisdiction over the Budget Act, I welcome your participation in the examination of the 1974 Act. As the Chairman knows, the Budget Committee is planning to hold a series of hearings, addressing not only the reconciliation process but also the entire gamut of issues and possible changes that could be made to the Budget Act.

In the days and months of review which lie ahead, I hope that we will temper our efforts to revise the most successful budget process in the history of the nation. That's right, Mr. Chairman, the most successful budget process in your history. As we look back over the last two hundred years, we have tried on four occasions to impose a process on federal spending decisions. The Budget Act of 1974 is the only attempt which has lasted more than two years.

My colleagues often wonder why Budget Chairmen so zealously guard the procedures established by the Budget Act. Why raise objection to a bill which is but a small, statistically insignificant violation of the budget ceilings or a technical violation of procedures. The answer, Mr. Chairman, is the Budget Act and our ability to control federal spending is directly linked to our willingness to adhere and protect the integrity of the budget process. That process is all that stands between us and our individual inclination to resume "business as usual" out of control spending.

Mr. Chairman, there is no dearth of proposals to amend the Budget Act. This year alone, there have been 19 bills introduced in the Senate which would radically revise in one way or another the Budget Act. I welcome these proposals. As I will make clear in a moment, some changes are clearly needed.

But I would urge that we not rush to make any revisions in the most significant improvement in Congressional decision making. This year, the Budget Act provided the means for the largest spending reform in our nation's history—savings totalling $35.2 billion dollars. It was an extraordinary achievement for Congress, an achievement that would not have been possible but for the procedures available under the Budget Act.

It is my hope Mr. Chairman, and a challenge that we share, that we not do anything which will promote the proliferation of *ad hoc* spending decisions and that we devote our fullest effort to preserving the integrity and enhancing the strength of the budget process which has brought us so far in a short period of time.

Mr. Chairman, I realize that the primary purpose of this morning's hearing is to review the reconcilation process. However, I would like to ask the committee's indulgence for a few minutes while I discuss briefly several other major issues concerning the budget process.

ENFORCEMENT

Mr. Chairman, if we cannot enforce the budget decisions that we have made, there is little point to having a budget at all. Right now, the only real enforcement tool is the reconciliation process. The point of order which lies against bills or amendments causing aggregate spending to exceed totals in the second budget resolution is really a "too little, too late" tool and tends to penalize the last man in line.

Last year, I introduced legislation—S. 2471—to substantially increase the enforceability of Congressional budgetary decisions. That bill would have delayed enrollment of regular appropriations bills until all 13 of them had been completed to insure that appropriations levels are consistent with the Congressional budget would have made the first budget resolution binding. Further, it would have established points of order against legislation that violated the functional totals in the resolution.

That bill was far from perfect. For instance, I now believe points of order should lie against bills which exceed the committee and subcommittee allocations rather than tying points-of-order to the functional totals.

Of course, no procedure will take the place of self-restraint on our part, nor will any package of amended procedures prove more useful than our willingness to employ them. But the availability of stronger enforcement mechanisms would unquestionably help establish and maintain a coherent fiscal policy.

CREDIT BUDGETING

Second, I would note that the budget process does not deal with the credit activities of the Federal government. Federal credit—both direct loans and loan guarantees—has a tremendous impact on the nation's economy and to omit it from budget decisions is to ignore an integral part of the federal budget. In 1981, $154.5 billion of credit funds were raised under federal auspices—direct loan, loan guarantee, or tax advantaged—or fully 50 percent of total funds raised in all U.S. credit markets.

During the past two years, we have been doing what we can to make progress in this area by including in our budget resolution targets for Federal credit activities. However, we need to strengthen our efforts in this area through changes in the Act.

Senator Percy has done his best to address this long-neglected aspect to federal spending, His bill, S. 265, which has been co-sponsored by the Chairman of the Senate Appropriations Committee, Senator Hatfield, is the most encompassing and coherent attempt to bring federal credit activities within the Congressional budget process and I will be disappointed if the purposes of that legislation, in one form or another, do not eventually become a part of the Budget Act.

OFF-BUDGET SPENDING

There are many other issues which I believe need to be investigated. Many can be characterized as "Truth-in-Budgeting" issues. For example, we must re-examine the off-budget status of a variety of federal activities. Approximately $20 billion of federal off-budget deficit is not included in the concurrent resolutions on the budget. Most of this is due to the activities of the Federal Finance Bank. Furthermore, over $100 billion of Federal spending is netted against fees and charges in the so-called "Revolving Funds" and are therefore not reflected in our budget totals. Mr. Chairman, for conscientious decision making, we must be cognizant and responsible for all the costs which we impose upon the American people, and should find some manner of reflecting this cost in the Federal Budget.

CONTROL OF ENTITLEMENTS

After seven years experience with the Budget Act, we still have major difficulty in controlling entitlement spending. Entitlement payments which are not controllable in the appropriations process, now compromise about 55 percent of the federal budget and have grown 2½ times faster than the GNP over the last decade.

Apart from reconciliation instructions requiring the responsible committees to report cost-reducing legislation, the Budget Committees can do very little about entitlements except include their estimated costs in the budget. Wall Street jitters reflect a general lack of confidence in the federal government's ability to control spending—as much as deficits or the sheer size of the budget. To deal with the Budget Act without grappling with the entitlement problem would be futile.

BUDGET TIMETABLE

Mr. Chairman, despite our best efforts, we have frequently failed to meet the schedules provided for in the Act. Some have proposed going to a two-year budget and appropriations cycle. Others have suggested making the first resolution binding with all spending legislation measured against that resolution. In any event, we must re-assess the budget timetable in light of both practical realities and the needs of an effective process.

I mention these budget process issues—and there are others I have not mentioned—to point our the enormity of the task before us. For many years, Congress abdicated its responsibility to establish fiscal policy and national priorities. Over the past seven years, we have sought to use the Congreesional Budget and Impoundment Control Act to bring that control back where it belongs—to the Congress of the United States. The scope and complexity of federal fiscal activities presents us with an unparalled challenge: to maintain and improve a process which establishes and controls federal fiscal policy. The original Budget Act was a giant first step, but now is the time to take another.

MULTI-YEAR BUDGETING

Mr. Chairman, sixty-three percent of the outlays occurs in this fiscal year are the result of budget authority granted in prior years. Real control of the budget demands at least a three year time horizon of budget planning—and as you know, the Senate and House are both moving in this direction. However, there is at present, no enforcement power behind the out-year numbers. Of course, it is not a simple matter to design a multi-year enforcement mechanism—but we must begin to explore the options if true control is to become a reality.

RECONCILIATION—AN EXTRAORDINARY REMEDY

Of course, the issue before you today is more narrow: a review of the reconciliation procedures as they have been used up to now and possible changes to those procedures.

Let me say at the outset that I would not like to see the reconciliation process become a routine instrument for establishing federal fiscal policy. Reconciliation is an extraordinary process and should be used only in extraordinary circumstances. Normally, we should be able to produce and enforce a Congressional budget without using reconciliation.

THE NEED FOR RECONCILIATION THIS YEAR

Mr. Chairman, well before President Reagan was inaugurated, he and his associates began developing specific proposals for adjusting federal priorities and reducing federal domestic spending.

Given the enormous economic problems facing the country and the scope and dimension of the changes that the Administration wished to implement, it quickly became clear that the traditional legislative process was not likely to deliver comprehensive results within the time period in which action was needed. The logical alternative, short of a declaration of emergency, was the budget process, and in particular, the reconciliation process.

I should point out that it was Congress' own decision to use the reconciliation process—not the decision of the Administration. We used it because it was the only sensible way to accomplish what was needed at the time.

For reconciliation is the only existing mechanism which allows Congress to assure that its overall fiscal policy decisions will be carried out by each standing committee according to a set timetable without losing the integrity of Congressional decision making.

RECONCILIATION AND THE COMMITTEE SYSTEM

Mr. Chairman, reconciliation does not infringe upon the line item or programmatic jurisdiction of any of the standing committees. Rather, it is simply a component of a larger procedure. Congress can establish aggregate levels of spending and then require particular committees to report legislation enabling Congress to enforce its aggregate fiscal policies and national priority decisions.

The Reconciliation process reflects and respects the fundamental roles of the authorizing and appropriation committees. The Congress, acting as a whole, cannot hope to have the knowledge, expertise and wisdom that committees possess with respect to programs within their jurisdiction. However, it does put tremendous strain on the committees. It requires them to satisfy in a relatively short period of time the demands of the Congress as a whole. But there can be no doubt that the House and Senate as a whole have the right to give directions to their committees. And, I suppose, that is the most important characteristic of the reconciliation process; it provides a specific opportunity to make the individual committees accountable to the Congress as a whole.

There are those among my colleagues who would suggest that this is an unacceptable incursion upon the integrity and autonomy of the committee system. I would tell them that to the extent such autonomy has existed, it is only because Congress in its discretion has allowed it to exist.

In passing the Congressional Budget and Impoundment Control Act, Congress removed a measure of that autonomy. The Budget Act reflects a basic Congressional decision that spending and revenue policy cannot be responsibly established in an ad hoc fashion without regard to the overall economic picture and broad choices on national priorities. There is a limit to resources available to the government. The budget process provides a mechanism to debate and establish to parcel out resources within the overall limit among major national priorities, leaving to the committees

of jurisdiction the initial discretion on how best to apply those limited resources to specific programs.

Reconciliation is a small but important part of that budget process. It provides an enforcement mechanism to bring spending into line with the aggregates and broad priorities established by the Congress. To understand what I said earlier, reconciliation is the only really effective enforcement process we now have. If no enforcement mechanisms existed, the budget process could become a useless charade—a paper limitation which could be ignored with impunity.

What is a limitation unless it can be enforced? Can Congress be said to have a budget if it has no means of compelling its committees to live within it? These questions were answered in 1974 when the Budget Act was passed and the reconciliation process was created.

Why then did the Budget process appear to play so much larger role this year than ever before? The answer, Mr. Chairman, is that this is an extraordinary year with extraordinary budget problems facing the Congress and the new Administration. This is the first year in which a majority of both chambers believed that the overriding obligation of Congress to the public was to reduce substantially the growth of federal spending. This is the first year in which a majority of the House and the Senate recognized that the need for major reductions in federal spending was more persuasive than the demands of interest groups for continuing expansion of the Federal sector.

In sum, Mr. Chairman, what distinguishes this year from any other year, is the magnitude of our budget problems and the existence of the political will to use the tools at hand to reduce the growth of federal spending.

A NEW USE OF THE BUDGET ACT: RECONCILING AUTHORIZATIONS

I realize that several of my colleagues view which some concern the recent use of the Budget Act to achieve spending reductions. Specifically, some have raised the issue of the propriety under the Budget Act of compelling changes in authorizations via the reconciliation process.

Let me state clearly my position on this subject. In my view, authorizations are a limitation on appropriations. Authorizations reflect the policy decisions of the Congress as a whole, after considering the recommendations of the Committees which are charged with the oversight of the particular program areas.

Under the long-standing procedures used by both Houses, it falls to the Appropriations Committee to decide among the conflicting demands for funds how much should be allocated to the various authorized activities of the federal government. Frequently appropriation bills do not provide as much money as authorizations would permit. Certainly the normal pattern is for appropriations to be at or below authorized levels. The rules of both Houses, however, provide that the Appropriations Committees may report bills which may exceed authorized levels, and Congress is certainly free to use an appropriation bill to create new substantive law. Likewise however, it is established practice for the authorizing committees to report legislation setting dollar limits, if they wish, for programs within their jurisdiction, rather tham merely authorizing "such sums as may be necessary".

Both the authorization and the appropriations processes must be flexible enough to meet the changing needs of the nation as they arise at any moment. Should we force disaster victims to wait for Congress to authorize the expenditure of funds to be followed at some later time by an appropriation? Must Congressional in-fighting delay orderly continuation of our nation's energy programs?

The answer is clearly no. The appropriations process must be allowed to be sufficiently flexible to meet the needs of the government and the nation, and the Senate Rules recognize this necessity. To limit appropriations in all cases to the authorized level would tie our hands, and, in some cases, defeat the very goals which we seek to achieve.

Mr. Chairman, the provision in Rule 16 which gives the Appropriations Committee the right to appropriate in excess or in the absence of an authorization demonstrates that purity of process must give way if it can not be supported by reason and common sense.

But this exception is not the norm. There can be little doubt that those who appropriate do not always have the same perspective and knowledge as those who authorize. Therefore, the authorization levels of the standing committees should be given—and are generally given—the utmost respect by those who appropriate. Only in the most extraordinary of circumstances should the programmatic decisions of the authorizing committees be superseded.

This sense of comity between the authorizing and appropriation processes is well understood in both the House and the Senate. The comments of the Appropriations Committee itself, a couple of years ago through our former colleague and friend, Chairman Warren Magnuson, are well worth repeating:

"The committee has pretty well lived up to the agreement that we are not going to appropriate money that is not authorized. Unless a program is authorized, we have no guidelines. Once in a while there is a rare emergency where we do not do it subject to authorization, but those are few and far between." [1]

Given this relationship between authorizations and appropriations, it is certainly appropriate that the authorizing committees bear this initial responsibility for reducing, and be given a chance to reduce, the levels of spending permitted in programs within their jurisdiction. If these decisions were left entirely to the Appropriations Committees, the authorizing committees would have little voice in determining the relative priorities among their programs within the context of overall fiscal stringency. Furthermore, given the magnitude of the reductions that the committees were compelled to make this year, it was absolutely essential that authorizing committees be permitted to recommend priorities among those programs over which they have jurisdiction so that the funds that remained would be spent for the highest priority purposes. To ask for dollar reductions in authorizations without simultaneous revisions of program procedures and priorities would have resulted in an abandonment of the policy making responsibilities of the authorizing committees.

In sum, the revisions in authorizations reflect Congress' conclusion that authorizations are a limitation on appropriations, which are designed to assist the Appropriations Committee as it works to achieve the desired budget savings.

If this relationship between authorizing and appropriating committees does not exist, what then would be the purpose of the authorizing committees? If we were to appropriate routinely without regard to the decisions of the authorizing committees, their participation in the fiscal policy and national priority decisions of the Congress would become largely superfluous. This is an untenable conclusion which must be rejected.

Mr. Chairman, the reconciliation process respects and supports the relationship between the authorizing and appropriating committees. This year, our shared desire to being federal spending under control required unified Congressional action by over thirty committees. The reconciliation procedure was the only existing mechanism which was available for the coordinated and unified participation of those committees. In short, Mr. Chairman, the reconciliation process has permitted the Congress to do that which it desired to do: reduce federal spending in a rapid and coherent fashion in one legislative vehicle.

TIMING OF RECONCILIATION

Mr. Chairman, as I am sure we all know, the Budget Act explicity provides for reconciliation to be triggered by the second budget resolution. On the two occasions in which the Congress has utilized the procedure, it has been used in the context of the first budget resolution. The legal authority for doing this is contained in subsection 301(B)(2) which provides that, and I quote, "The first concurrent resolution on the budget may also require. . . any other procedure which is considered appropriate to carry out the purposes of this Act."

The fact is that Congress can only effectively use the reconciliation process well before the onset of the fiscal year. When we amend the Budget Act, we should specificially provide that reconciliation is permissible as part of any concurrent resolution on the budget.

I wish to thank the Chairman for giving me the opportunity to present my views today. I look forward to reviewing the comments of my colleagues and those of the Administration and hope that my own contributions will prove useful to the Committee.

Thank you.

Chairman ROTH. At this time, it is my pleasure to call forward Dave Stockman, the Director of OMB, who, I guess, might be called the architect in many ways of the current budget. I think the Nation indeed is fortunate to have a man of his background and skill in this position at this particular time.

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[1] Remark of Senator Warren Magnuson during Senate consideration of Labor-HEW appropriation bill for 1979. Cong. Rec. pg S15972, Sept. 25, 1978.

So I look forward, as I know my colleagues do, to hearing your statement.

TESTIMONY OF DAVID A. STOCKMAN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. STOCKMAN. Mr. Chairman, thank you very much. I appreciate the opportunity to appear before what are certainly very timely, important hearings as we try to determine how procedurally and by way of process we can address the urgent and outstanding fiscal problems that confront this country.

I have a statement that I would like to submit for the record, if that meets with your approval, and simply provide facts that I would like to call to the attention of the committee.

Chairman ROTH. Without objection.

Mr. STOCKMAN. Mr. Chairman, I welcome this opportunity to participate in your hearings on the use of reconciliation as part of the budget process.

You know better than I how reconciliation has evolved over the last past 3 years. The basic characteristic of the process is that it permits Members of the Congress to vote in a single bill on a diverse set of amendments to a wide range of basic legislation, including amendments that change entitlement programs. In the process, the narrower interests of program constituencies and subcommittee jurisdictions tend to be subordinated to the broader objective of implementing congressionally determined budgetary aggregates and macroeconomic policy goals.

The Omnibus Reconciliation Act of 1981 represents an important and essential first step in achieving restraint in Federal spending. Before enactment of this act, Federal spending was projected—conservatively—to be increasing at a 10-percent annual rate in fiscal year 1982-84 period. The act will reduce Federal spending by more than $130 billion over this period and reduce this rate of growth by more than 2 percentage points.

In this single piece of legislation, unprecedented in its scope and dimension, over half of the total savings needed to reach a balanced budget in 1984 have been achieved, and in the table we have inserted on page 2 of my statement, I have tried to set the reconciliation savings in perspective relative to what would have been spent under the base line had no action been taken.

And we have reduced the rate to 7.6 percent, but if we are to achieve a balanced budget, that has to further be reduced to 5.2 percent each year over the next 3 years.

Mr. Chairman, it is hard for me to say that a process that was instrumental, indeed essential, in saving such large amounts is defective. Nevertheless, reconciliation has profound effects on important relationships within the executive branch, the legislative branch, and beteween the two branches.

We tend to think of reconciliation in terms of its effect on the budget and thus on the economy. But its most profound effect could well be on the legislative process itself. This should be clearly recognized. Otherwise, analysis and deliberation on the reconciliation process will be unrealistic and academic at best.

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The reasons that reconciliation works in terms of its budgetary goals and impact are several:

First, it provides for the first time a comprehensive implementation tool for the Congress to conform the details of this entire budget to the aggregates that were established for total outlays and deficit in the initial resolution. Second, it provides a powerful action forcing mechanism so that entitlements and discretionary program changes are not only made but made within a timeframe so that the actual outlay savings can be expected to be achieved during the fiscal year.

I cannot underscore enough the importance of timing. We are discovering as a result of implementing the reconciliation changes that it often takes several months after a law has been passed in order to issue new regulations, change the implementation procedures at the field office or State and local level before you actually achieve the outlay savings that reduce borrowing in the deficit in the year intended. So enforcement as part of this process is very critical,

Third, burden sharing. I don't know how many times when I was a Member of the House, I would hear, "Don't cut my water project until you cut his mass transit project." Reconciliation permits an across-the-board look at Federal spending and requires many, many programs, affecting diverse parts of the country and constituencies to be impacted and reduced to achieve the overall budget objective. As a legislative and political matter, that kind of balance and scope is probably essential if changes are to be made.

Finally, of course, it permits collective votes on the overall process, rather than individually or seriatim votes on program issues one at a time.

To a considerable extent, reconciliation addresses the most difficult problem with the budget we have had for more than a decade.

If reconciliation has such strong virtues, why shouldn't it become the major technique for dealing with the budget in the legislative branch? My answer is that it probably should, at least it should for the next 1 or 2 years. This is not to say it should be continued in exactly the same form as this year.

There are lessons we have learned on how the process might be improved, and we have also learned that there are substantial costs to the use of reconciliation.

Taking the latter point first, one cost can be characterized broadly as a quality cost. This will probably show up in two respects. First, the reconciliation bill must be formulated so quickly that it will be amazing if there are not defects here or there because of the lack of time to analyze the full implications, both legal and programmatic as well as budgetary, of all the measures enacted.

Second, there is a natural selection process under which relatively simple budget reduction proposals tend to be favored over relatively complex or perhaps even more appropriate ones given the severe time restraint under which the process is operating.

There is clear concern that there is not enough time to analyze and understand fully this year's reconciliation bill. More complex proposals, obviously, would have only compounded that problem.

Another cost is to the institutional structure of the Congress itself. Division of labor in the authorizing and appropriation sub-

committee structure has evolved over many decades for good and substantial reasons. Reconciliation by contrast makes it extremely difficult for members to play their additional roles in this division of labor. The targets they must meet are set by the Congress as a whole in the reconciliation structure. They have leeway in meeting them but are severely constrained because the Congress has also endorsed at least implicitly the assumptions behind the reconciliation. Moreover, as a practical matter, there may be few, if any, alternatives that will achieve the designated savings quickly.

Again, reconciliation tends to favor the simple solution over the complex solution.

If anything, we have learned that this year's reconciliation was hampered by its complexity. In hindsight, a considerable portion of this complexity is unnecessary and perhaps redundant with other aspects of the budget and legislative process, and I think the important purpose to be served by your hearings and the consideration that will be given subsequent to them is ways of sorting out what got rolled up in the process this year to determine more approriate and, hopefully, a more viable course for future years so that reconciliation can again be used where it is needed.

I will suggest in particular this morning, Mr. Chairman, the reconciliation bill should not become an annual omnibus substitute for routine authorizations and routine appropriations. In particular, the inclusion of reduction targets for routine authorization bills was a noble experiment but one that was cumbersome, inadequate, and redundant.

While the committee as a whole may wish to instruct jurisdictional committees on funding levels deemed compatible with overall budgetary or functional aggregates—many of these discretionary annually authorized funded programs—it is by no means clear that these instructions need be implemented en bloc in the form of a single reconciliation bill.

The legislative workload requirements, scorekeeping task and policy comprehension requirements are simply too great to be concentrated in an extremely short time for floor consideration. In a moment, I will make a suggestion as to how that problem can be dealt with through reconciliation, but perhaps in a somewhat modified form.

What this implies is that the reconciliation bill would better be viewed as a selective action-forcing mechanism. It would apply to major policy changes needed to achieve budgetary aggregates contained in the first resolution—and this is the important point I would like to stress—that are not likely to receive timely committee or floor action in the normal course of events.

Examples of this would include new user fees or other revenue raisers, entitlements not up for renewal and major policy changes in discretionary programs.

By contrast, the reconciliation bill would not be concerned with incremental funding adjustments that can be made through the regular authorization and appropriations process. For instance, whether the level of funding for space science in the NASA organization bill ought to be $100 million higher or lower than it was last year.

One of the major problems that confronted or confounded both policymakers and budget technicians was confusion about scorekeeping of items in the reconciliation bill.

The instructions simply directed committees to cut specified amounts. The cuts were measured from an indeterminate baseline that was difficult to relate to the President's budget or even in the case of a program where a baseline had not been used before.

There were numerous instances as a result where the cuts and reconciliation actually represented increases to either the President's budget or the budget resolution. In the future, reconciliation instructions, I would suggest, might be better stressed as absolute amounts or as funding levels after policy changes have been made. The reconciliation instructions would direct committees to set specified caps on authorizations or spending levels for entitlements. The committees would be held responsible for deliberate overages in these amounts, if they chose that course.

In addition, there should be initial agreement to codify the rules of scorekeeping. Something that was not possible in this large exercise this time but something that became apparent is clearly needed as these controversies evolved during the last several weeks before floor action.

This would assist the committees in measuring the real impact of their actions and prevent false or misleading savings from being reported and allowing budget committees to keep a tighter rein or at least monitoring of what was actually being achieved in the bill sent to the floor.

This year, for example, the House Committee reconciliation bill included a variety of false savings such as the following that could be eliminated if some ground rules or reconciliation rules were established by agreement within the next several months before another conciliation effort is made if it is determined to do that next year.

Examples include bookkeeping gimmicks. The House Public Works Committee proposed to offset program increases in some areas of its jurisdiction by lapsing $159 million in unobligated highway contract authority. The President's budget contains no budget authority or outlay impact to this authority.

The House Energy and Commerce Committee, to take another example, claimed an additional budget authority savings of $900 million in 1982 merely by increasing the amount of their strategic petroleum reserve that was shifted off budget. Obviously that had no impact on total borrowing for the total deficit.

Another thing that needs to be addressed and resolved is escape clauses in the legislative language that actually negate savings. The Merchant Marine and Fisheries Committee claimed $280 million in budget savings over the 1982-84 period through the imposition of a new $5 per ton fee for ocean dumping of sewage and the like.

However, it also included language allowing the fee to be waived if it would result in "undue economic burden to the ocean dumper."

Obviously, much of this fee would never be collected because of the impact.

The Education and Labor Committee claimed 1982 savings of $929 million for child nutrition programs by, among other things, eliminating meal subsidies for child care suppers.

A little section of the same bill specified that lunch could be served at any time during the day and presumably those savings would not have been achieved.

Third, there is a tendency or was a tendency for authorization caps for entitlement programs with no change in underlying eligibility structures. Again, savings would not occur. An example that comes to mind is the House Agriculture Committee imposed an authorization cap on the food stamp program to produce and take credit for $1.5 billion in savings in 1982 and larger amounts thereafter.

However, it made no changes in the underlying entitlements structure, that is to say benefit levels, eligibility, income determination rules, so forth, so that spending could reasonably be expected to stay within these limits.

A fourth area that needs to be addressed, and a clear set of rules that everyone in the process would abide by would be the practice of claiming credit for savings assumed to occur outside of reconciliation. Several committees in the House claimed credit for savings that were assumed to occur in other actions in later bills.

For example, the House Public Works and Transportation Committee claimed savings of $139 million in 1982 budget authority for airport development grants even though this program was excluded from the instructions.

So, again, if the reconciliation process is to work better and people who have a fuller understanding of what would happen and what is being voted upon, it seems to me some effort to codify the rules of scorekeeping and what would be counted as policy change and what wouldn't be would be very important to get in place before the next effort is made.

In order to be useful, a reconciliation bill clearly needs multiyear focus and if there is anything I would like to stress today it is that point.

One of the main problems with the Reconciliation Act of 1980, the trial run, was that some committees merely shifted spending from one year to another or adopted a temporary cut or cap thus increasing long-term cuts. This year the reconciliation directive extended to 1984, this eliminating. some of last year's gimmicks.

However, even this year's experience emphasizes the need to begin early. Entitlement programs in particular tend to develop a momentum of their own. It takes time to hold hearings, pass legislation and implement new administrative regulations and field level procedures.

There is a serious tendency for the effect of important legislative reforms, entitlement reforns, to become eroded during the first budget year after policy change. We are seeing a rather major example of this right at the present time. The administration proposed $6.5 billion of reductions in the 1982 outlay budget for five entitlements programs, AFDC, medicaid, food stamps, guaranteed student loans, and child nutrition.

This proposal reduced these programs from $45 billion under current law in outlays to $39 billion in fiscal year 1982.

However, during action on the reconciliation bill, the savings were reduced by Congress by $2.2 billion.

Reestimates in July further eroded the savings by $1.6 billion. Now we find delays in regulations and other measures necessary to achieve the savings at the State and field level as well as unanticipated increases in the caseload, threaten to erode the savings by another $2 billion. If this happens, 1982 outlays for these programs will end up virtually where they began in March under current law.

Of course, in future years, as the changes are effected, the savings will be achieved but not in the current year.

At first glance, it would appear that suggestions for simplifying the reconciliation bill would exclude so much from the reconciliation process that it would be far less effective. This need not be the case if the Congress were to adopt a practice of voting on two separate reconciliation instructions.

The first would be similar to the one used this year. It would instruct committees to supply language for an omnibus reconciliation bill by a specified date.

However, it would be primarily an action-forcing instruction limited to automatic or entitlement spending and major new proposals and discretionary programs and on the revenue side. A second instruction would be voted on covering other authorizing legislation that is expected to come up routinely during the legislative year.

The instructions here could be selective, addressing only those routine funding levels for which the Congress as a whole desires to give explicit directives to its jurisdictional committees. As a result, where necessary, authorizing legislation could be brought into conformity with the budget resolution, but not all of it would have to be included in one omnibus reconciliation bill.

Given this narrower concept of a reconciliation bill, it should be practical to give more weight to the programmatic assumption underlying the reconciliation instructions. Committee discretion on how to come up with savings is now too broad and resulted in many of the scorekeeping arguments and confusion that we had last summer.

If the Congress, in passing the instruction, assumed an entitlement cut or user fee, the broad outlines of this guide should be followed under this revised procedure.

In considering reconciliation and the first budget resolution, I believe the Senate was wise to separate these actions and vote on them separately. This way, members understand more explicitly the implications of what they are acting on. Furthermore, the Senate, by voting on the reconciliation first, made it easier to insure that the resolution was consistent with those policy actions.

If the order were reversed, it would be possible to vote a resolution that was more restrictive than the reconciliation needed to achieve the budget targets. I would commend the Senate's procedures to the House.

Even with these suggested changes, reconciliation moves us, to some extent, in the direction of a parliamentary system. Centralized decisionmaking and discipline are increased. We may need that for the next several years. We must correct the imbalance that has grown up between the size of budget programs and com-

mitments and the ability of our economy to sustain and finance them.

There is, however, no abstract principle by which the merits of a relatively centralized versus relatively decentralized budget process can be resolved once and for all.

The choice depends on the problems and issues that need to be faced and the urgency needed in facing them. In the current economic environment, rapid and permanent decreases in the momentum of Federal spending are essential. It is in this context, particularly in view of the lags between legislative action and budget effects, that there is a strong argument for continuing to use reconciliation but with some modifications such as those I have suggested.

In other years, in other circumstances, with other fiscal realities, the more traditional legislative process may be appropriate.

That concludes my prepared statement, Mr. Chairman. I would be very happy to respond to your questions.

Chairman ROTH. Thank you, Mr. Stockman. Before you were here, we had a lengthy discussion on reconciliation both with Senator Domenici and Chairman Bolling of the House Rules Committee. As I said at that time, it seemed to me reconciliation was a very important part of the budgetary process because it is the only means we really have of insuring that the decisions made on the budget as a whole will be followed. That is, if we eliminate that enforcement procedure, we could be in very serious difficulty. One of the great successes, of this process, it seems to me, is that it has allowed a new administration to rather quickly bring into being its change in policy.

In some ways I think that addresses the problem that was raised by Lloyd Cutler in his recent Foreign Affairs article, where he spoke about the impossibility of a President with a Congress of the same political makeup getting programs through. At least on this one occasion it was possible to do that. Now, some people are concerned, and I think there is some legitimacy to their concern that this process in a sense makes a mockery of our legislative process, that the executive branch is able to force, if you want to use that language, its program on the Congress without following the normal legislative processes.

I pointed out that this could be done by any administration. As a matter of fact, 2 years ago the same kind of effort was made. For example, there is in the case of superfund. There was an effort made to adopt the superfund legislation through reconciliation without the normal process or the opportunity to debate and amend.

Let me ask you this, do you think that what happened this year is a unique experience because there was a broad consensus within the Congress, as well as the executive branch, as to what needed to be done, so that it does not necessarily say what will happen in the future, or do you think the worst fear that has been expressed by some true, is that this becomes a means of bypassing the legislative process?

Mr. STOCKMAN. Mr. Chairman, I think I would respond to that by saying that the key to how this is used in the future lies in the hands of the majority of both the House and the Senate. Reconcili-

ation cannot be initiated by the executive branch. A reconciliation instruction must be approved by a majority of both Houses. To the extent that that has a wide scope or causes major change in policy is only a function of the content of that instruction.

So it seems to me your original point that this year we have a consensus, that consensus was embodied on the votes on the first resolution and in the reconciliation instructions really explains what happened.

Now, obviously it served our purpose in the administration for getting early and broad consideration of the literally hundreds of policy changes in spending that we propose, but it could not have been done without a majority desire to do that.

The whole Omnibus Reconciliation Act never would have materialized without that initial step.

Chairman ROTH. It does seem to me this committee should concern itself carefully with whether or not reconciliation is working properly or if it should be modified. As I understand it, what you are proposing is that we have two reconciliation statements and really the first one would deal with the most controversial matters, the ones that affect major policy.

For example, you say in the case of revenue, that you would take care of user fees. Would that be adopted by the reconciliation or would you have that go to the tax-writing committees?

Mr. STOCKMAN. That would go to the tax-writing committees and the appropriate committee of jurisdiction.

Chairman ROTH. It would become a part of that initial reconciliation?

Mr. STOCKMAN. Yes. Mr. Chairman, I think my concept here, this is only a suggestion and obviously it is up to the Congress to determine how to perfect and improve this instrument. My suggestion here was that the budget outlays in any given fiscal year consists really of two parts. One part of it would be driven by the routine bills on annual authorizations, let's say, for NASA or the 13 regular appropriations bills, that the Congress can be confident will be considered in due course because the Government can't function without legislation on a regular basis in that area.

The other part of spending or changes in the budget position results from matters that would not ordinarily be addressed by Congress. If you want to change revenues, there is no certainty there would be a tax bill. If you want to change the cost of the food stamp program, there is no certainty food stamp legislation would be brought through the subcommittee, full committee stage for floor action.

It seems to me on that part of the budget target that you are seeking to achieve, the part that would be determined or driven by actions that are unlikely to occur because the law just rolls forward on its own momentum, the tax law and entitlement law, that that is what reconciliation should be directed to.

Forcing actions by a date certain so that if Congress passes the first budget resolution and assumes $30 billion less revenue or $2 billion more or $1½ billion less in food stamp costs or $1 billion more, action will be taken within the appropriate time frame so that that will actually materialize when the 1982 budget gets underway.

Then for those items that would automatically come across the calendar, the annual authorizations or the 2- or 3-year authorizations and appropriations, if you wanted to instruct, that would be a prerogative of the Congress. It seems to me if you instruct on every program you would usurp completely the functions of those committees, but occasionally policy directives might be given. But rather than wrap all of these things up into the reconciliation bill, simply enforce the instruction as these measures come along in their normal course 1 week at a time over the summer, spring, legislative and appropriations cycle.

That way you reduce the scope of the bill, the reconciliation bill, stretch out the time period for legislative action and avoid this kind of crunch environment in which there was a great deal of uncertainty as to what the numbers were, what the policies were and what was happening in the last moment before everything came to the floor.

Chairman ROTH. Let me ask a clarifying question. For example, what would happen to major new initiatives that involve substantial funds. Whether it is a superfund which some of the liberals would sponsor, or something in which conservatives might be interested such as the defense program, would these initiatives be part of the initial reconciliation?

Mr. STOCKMAN. I guess I should clarify my definition there. Major new initiatives to reduce spending or to change revenues would have an impact on the deficit. It seems to me that new programs that will raise spending are either going to be implicitly improved in the first budget resolution because you make room in the functional total or they are not. In the case of defense, the defense function almost completely the DOD budget and so, therefore, in voting on the first resolution and the target amount you have pretty well locked that into place.

In the case of proposals that would be assumed in the first resolution as a way of cutting spending but that are not likely to get action, for one reason or another, that would be the appropriate target for the reconciliation bill.

Chairman ROTH. My time is up, so I will defer to my colleagues, but I would like to come back to that. Senator Mattingly?

Senator MATTINGLY. Just very quickly; your last two paragraphs I think were really the crux of what I was looking at because what I think they point out is that we are in a unique situation in our country. I think you imply in them that we will get back to the process where Congress has time to debate some of the issues of either appropriations or budget matters later on.

You made the comment about timing, everything is geared to timing, which I think is very appropriate. I think that we—and that's "we" here versus "we" out there in the real world—we don't have the option right now to go on back to the good old days of the way we used to be able to do it. We are sitting with high interest rates and the big budget. I am going to ask you the same question I was asking Senator Domenici. It is my feeling that we have got to go through with this process now, that we have no alternative, and that now is the time the real decision has to be made about changing the index or the entitlement programs. I would like to ask if you agree with that and if you also agree we need to possibly look,

not possibly look but we ought to look at moving the cost-of-living adjustment; that the reality is that we must change the present cost-of-living adjustments to real figures so we can have a real impact upon the budget and get us headed into the right direction. I am concerned over whether we will find all the money necessary to put us on the proper economic course in those already mentioned areas, just by cutting an arbitrary 12 percent.

Mr. STOCKMAN. My answer to that question would be that that is one way of achieving the budget savings that are needed to hold the line on the 1982 deficit and reduce the pressure on the credit market. However, we have not recommended that primarily because it was fairly apparent to us that it wasn't a very realistic course of action in terms of getting legislative results within the timeframe necessary to stem the increase in the outlays and deficit in the 1982 budget.

In other words, to propose something that would end up with 8 or 9 months of legislative debate or even longer would not help you at all in 1982.

We have got to get measures into place yet in the next several months if we expect to get any outlay savings, for that reason, we have proposed the mix of measures that were contained in the President's message last week—with additional revenue enhancements primarily by closing loopholes, hopefully the level of controversy will be less, 12 percent across-the-board reductions in appropriated programs and the changes the President has announced in the defense program. There are probably other ways to do it, but on both policy and in terms of practical considerations, that appears to me to be the best if not the only way to keep this deficit from rising beyond our target level in 1982.

Senator MATTINGLY. What period of time do you think it should take to accomplish that?

Mr. STOCKMAN. Again, it is a problem addressed in my statement. There is an enormous lag built into this budget and if you don't make changes quickly, almost all of the outlays in the 1982 budget will be locked in by Christmas and it will be very difficult to do anything about the size of the deficit except to acquiesce to it if action is not completed by that date. Budget authority is put into the stream and it spends out. If entitlements are not changed, they spend out. For those reasons quick action is rather imperative.

Senator MATTINGLY. Do you think the administration and OMB and others will impose the entitlement subject——

Mr. STOCKMAN. Yes; we have indicated that in a statement last week and we intend to have a fully developed set of legislative proposals for more than 12 entitlements that would produce $2.8 billion this fiscal year in savings and to have those up to the Congress for consideration some time shortly after October 20.

Senator MATTINGLY. Thank you.

Mr. STOCKMAN. Senator Eagleton.

Senator EAGLETON. Thank you, Mr. Chairman. Mr. Stockman, near the tag end of your prepared statement you made some reference to the centralized budget process, how centralized it should or should not be.

The epitome of budgetary centralization is impoundment. At your confirmation hearing you foresquarely opposed the notion of

giving the President impoundment authority. Do you still adhere to that view?

Mr. STOCKMAN. My view the impoundment in the traditional sense is a very bad idea. It considers severe rupture and strain in the branches in the early period and we never want to go back to that notion.

I think it would be worthwhile to consider although I would not press at the present time the idea that in the existing recision procedure that you may want to consider shifting the burden.

Now it takes the approval of two Houses. I may want to look at one House disapproval, two Houses disapproval, one House approval, something that would slightly lessen the burden to get results in that process.

Senator EAGLETON. Central to the budgetary process and the art of budgeting our estimates, estimates of receipts and estimates of expenditures, let me read you a quote from yesterday's Washington Post with respect to this question of estimates:

> Stockman tossed phony numbers into the air last winter, numbers predicting better economic developments than were possible. He knew he was doing it, but felt he had to according to the people around him. Now the numbers have to be revised. In fact, Stockman is being pressed to publish an economic forecast in January that is much gloomier than anything the Administration has fessed up to yet.

Would you comment on that quote?

Mr. STOCKMAN. Senator, I would just say that is the opinion and surmise of one journalist who is usually accurate, but in this case I am not sure where the information was derived from. I would be first to admit that the forecast we used in February was put together on extremely quick, hasty, rapid basis. It is one of the costs of transition. We had 10 days to rewrite the budget and devise a forecast from which to make budget estimates and I would certainly hope that for fiscal year 1983 where we have had a full year in the regular process of budget development that we would produce a forecast that would have been given much greater scrutiny, consideration, analysis and so forth.

Now, I will also say, however, that we were wrong on the interest rate forecast. It has had major budgetary impacts and there is no way to hide or excuse that. However, we were right on the inflation path. We were as right as anybody else on the output or real GNP path, and given the volatility of the economy today and the record of almost any forecaster, governmental or nongovernmental, I think when all is said and done, we have come out about as well as anybody else.

What it means is we need to work between CBO and OMB next year to have a more common forecast so the debate can go on policy issues and not economic assumptions. There is no point arguing about an interest rate 3 years out nobody can predict anyway.

Senator EAGLETON. Suppose next January when you submit your forecast that the CBO forecast is significantly different in major degree. Which forecast should the budget committees and the Congress rely upon if there is a significant difference between yourself, the administration's on the one hand and CBO's on the other?

Mr. STOCKMAN. Senator, I think that would be your choice and I presume the Congress would tend to go with its own institution. However, I would suggest that choice——

Senator EAGLETON. But we didn't do that this year?

Mr. STOCKMAN. You use your own interest assumptions and inflations and GNP assumptions. I would point out, though, in the testimony of the Congressional Budget Office before the House and Senate Budget Committees they, too, have revised their forecast and our forecast and theirs is coming much more into conformity or becoming much more parallel. I would hope over the next 2 months, we can work with them so when we put our budget out in January it will be based roughly on the same forecast CBO is most likely to use.

Senator EAGLETON. Pursuing that point, since you brought it up that there is a closer commonality between your current forecast and CBO's, Alice Rivlin has estimated that to balance the budget by 1984 would require spending cuts of approximately $100 billion. Senator Hollings noted, "Such cuts would eliminate all of Government except for defense, interest on the debt and benefit payments."

Senator Hollings notes that "for fiscal year 1984, defense is $269 billion, benefit payments $293 billion, net interest on the debt $86 billion. That comes to $648 billion, which matches identically with your revenues for $648 billion. If that be the case," then Senator Hollings goes on to list on page S10918 some 25 or 30 programs that would have to be totally eliminated. I won't bother reading them all, they include such programs as cancer research, space, Coast Guard, Amtrak, school lunch, air safety, soil and water conservation, et cetera, et cetera, et cetera.

Do you have any comment on that?

Mr. STOCKMAN. I would comment by making three points. One, the $90 billion figure obtained from the CBO forecast has to do with more than just economic assumptions. They expect defense to spend out about $10 billion higher than we are projecting in 1984. Under the recent slowdown in defense expenditures that was proposed by the President, that included an iron-clad cap on defense outlays in 1984 of $242 billion, which is about $16 billion under where I believe CBO is today, at least $14 billion under, so I think you can set that aside.

Part of the difference is due to technical estimates on the rate at which other programs will spend. Therefore, our current number is $60 billion. Theirs is probably somewhere in the range of $80 billion purely on the basis of economic assumptions.

I have indicated to the House Budget Committee and will later this afternoon to the Senate Budget Committee, the President is proposed to give $6 billion of that savings out of defense. Another $11 billion out of revenue. That leaves you a $42 billion gap to close. In 1984, the budget will have in outlay terms $819 billion in spending before any changes are made beyond reconciliation. If you add to that about $30 billion in offsetting receipts that merely mass expenditures that could be cut or changed, you are talking about a base of $850 billion.

Now, defense, social security, and interest would account for $506 billion leaving you about $345 billion worth of program base outside the big three from which $42 billion in reductions can be made. That is a 12-percent cut in the whole remainder of Govern-

ment on an average basis other than defense, social security, and interest.

I think that is achievable. I think we have 12 percent excess activity, excess programs, secondary programs, marginal expenditures that could be squeezed as part of the effort to draw the budget close to balance.

My numbers come out giving a totally different picture than those you just read because I think those you just read don't fully indicate the base available for reduction.

Senator EAGLETON. But yet you said in the previous question that your figures, your projections, your estimates were getting closer to CBO's or vice versa, CBO is getting closer to yours, and in the predicate to my question was the CBO estimate—I have to wonder, are you and Mrs. Rivlin in terms of your estimates really getting closer together or could it not be alleged you are still pretty far apart?

Mr. STOCKMAN. Well, on the economic forecast which would drive the revenue level, interest outlays, unemployment, therefore, savings and expenditures, I don't think we are more than $20 billion apart in the context of a $850 billion proposition. The one difference is defense expenditures. I indicated that as a policy matter, we will use cash management, whatever is required to hold defense outlays to the new ceiling the President has proposed, $242 billion. That eliminates a big part of the difference between our estimate and theirs.

Chairman ROTH. I would like to go back, if I might, to your proposal on reconciliation. I think one of the great concerns in the whole of the Congress is that in acting on major issues through reconciliation, these major policy changes are not receiving the careful legislative consideration to which they are entitled.

At the same time, as I mentioned earlier, I think one of the real problems in Government is that we have no decisionmaking or have not had any decisionmaking in recent years up to the current year so that reconciliation has provided an avenue bringing about change.

Let me ask you this question: Would there be any way or means, in your judgment, whereby the reconciliation could be essentially a cap on spending and perhaps temporary limitation on programs so that any major substantive change could be followed through the normal legislative process?

In other words, instead of trying to deal with policy changes in the reconciliation, should we try to make it as limited as possible to spending and revenue issues?

Mr. STOCKMAN. Senator, I think I would disagree somewhat with the thrust of what I believe your proposal was. It seems to me reconciliation has to address itself to the automatic expenditures that will otherwise roll in the budget in the fiscal year in question unless action is not taken to change permanent laws, entitlement structures or other provisions that create automatic spending.

I do not know how you do that without policy change. If you simply put a cap on food stamps, you will end up in the spring with an appropriation that is too low and you will have to fund that legal entitlement with a supplemental and outlays will be up——

Chairman ROTH. On that point, I would assume any changes resulting from the cap would be legally binding so at least temporarily that would be modified. Any permanent change—I am reaching for some kind of solution.

Mr. STOCKMAN. I would suggest on that, if you are changing entitlements, they should be permanent and they should be permanent because entitlements involve very complicated rules and administrative structures that are designed to fit all kinds of variant to individual cases. And if you get every year a change in the entitlement structure, you have so much turbulence in the administrative system that the error rates go up, morale declines at the field level where these programs are administered, confusion abounds in the system.

It seems to me that, for no other reason, suggests you want to make a permanent change, know what we want to do and then stick with it as long as possible.

Chairman ROTH. A suggestion has been made that perhaps our budgetary process, including authorizations and appropriations, might be on a 2-year basis, rather than a single year. Would you, from the executive branch, think that would be a step forward? I know you talk about multiyear budgets, but, in other words, the suggestion has been that 1 year be spent by the Congress establishing the budget, the appropriations that follow through and the second year to be spent on authorizations and deauthorizations. Do you care to comment on that?

Mr. STOCKMAN. I think that I would favor that suggestion perhaps not on some rigid 2-year staggered basis, but I think we need a better way to deal with the enormous lags in spending.

Let me give a specific example of why the longer you wait, the more disruptive the change must be in order to bring the aggregate level of spending or deficit down. We are attempting to reduce outlays from Defense and Defense nondiscretionary programs by $10.5 billion in fiscal year 1982. We must reduce budget authority, program levels for these activities by $26 billion in order to get 10½ billion dollars worth of outlay savings and the reason for it is the programs spend out slowly. The budget authority authorized for the year doesn't necessarily spend out during the year. So if there is some way to start 1 year earlier, but certainly more than 1 month or 4 months before the fiscal year begins, it is easier to get chances in your cash outlays and the size of your deficit without the kind of program disruptions that occur when you wait until later.

Chairman ROTH. I believe there are some questions that other members may want to ask you, and we will leave the record open for a week and request that you answer them. I would just like one final comment.

One of my concerns with this whole process is that it has become so fragmented, with Congress spending so much time going over the same ground that we really find it very difficult to know where we are going. I think one of the worst consequences of this approach is that here we are in October—and I am not talking about the recent proposed cuts by the President—but here we are in October and no one back home really knows what to expect next year from the standpoint of schools, from the standpoint of State and

local governments, and so forth. One of the needs, I think, is to try to simplify this whole process and create some certainty.

I happen to agree with your comments earlier on entitlements. One of the problems of constant change is that you remove certainty.

Do you have any further questions, Senator Eagleton?

Senator EAGLETON. Mr. Stockman, in my earlier round we discussed outlays and expenditures. I would like to probe from the other side of the coin, that is Government receipts. That same Washington Post story had this to say:

> Stockman had long known the tax cut was a potential problem for him. He argued inside the Administration that its implementation should be delayed, an argument he largely won. Then Stockman hoped that the Democratic-controlled House of Representatives would moderate the size of the tax cut and thus the size of future deficits. "Don't worry, the House will bail us out," this was the slogan at OMB and in the Senate Budget Committee where many of Stockman's tactics were first developed. But the House did not cooperate.

So my question is this: Was the size of the tax cut—we said $150 billion over the next 5 years, was that too much and, if so, by what order of magnitude was it too much?

Mr. STOCKMAN. Senator, I don't believe it was too much. Again, I believe the story you quote contains an uncharacteristic inaccuracy or second-hand derivation of the information. My view is that $700 billion sounds like a lot over 5 years until you put it in proper context. The context is that had we not changed the tax law, the current system would have generated $4.6 trillion in revenue over 5 years. With that change, it will generate $3.9 trillion. It seems to me that if the executive branch and the congressional branch working together can't make ends meet to fund defense, fund social security with nearly $4 trillion in revenue over the next 5 years then we all ought to give up. I think it can be done. I don't accept the revenue starvation hypothesis at all.

Senator EAGLETON. Were the special oil breaks priced out at $33 billion over the next 10 years—or over the remainder of this decade rather—were any of those proposals that ultimately ended up in the tax bill part of the administration's original package?

Mr. STOCKMAN. No, those weren't.

Senator EAGLETON. Now that they have been in, the bill has been signed by the President, do you think they ought to remain in or do you think any of them ought to be rescinded or repealed?

Mr. STOCKMAN. With any large legislative package, you end up with items that were not requested or necessarily endorsed, or proposed. We had that on the reconciliation side where there were shortfalls. We had items added at the insistence of Congress, for good and substantial reason, on the tax cut as well.

We are going to have to go back and review some shortfalls in reconciliation and we may well have to do that on the tax side, too. I would point out, though, I think the number you have given, $33 billion over 10 years, is a bit misleading. That is the gross lost in revenues to the windfall profit tax. However, when you reduce the windfall profit tax, there is increase in receipts from the normal income corporate tax and what you want to look at is the net change of receipt. It is a very small fraction. Over the next 3 years, it is only $3½ billion.

Senator EAGLETON. But it balloons out over the remaining 7 years, does it not?

Mr. STOCKMAN. I might be able to supply for the record the net receipt change rather than the gross.

Senator EAGLETON. All these pickups you will get in the corporate income tax, for all practical purposes there is no corporate income tax to speak of.

Mr. STOCKMAN. The reason it is reduced in its effective rate is due to appreciation. These would not be depreciable items so there should not be any change in the rate applied against that form of income.

Senator EAGLETON. I would speculate come 1986, there will be precious little Federal revenue derived out of the corporate income tax per se.

Let me ask this final question, and this is an earlier Washington Post story dated Friday, October 2, by Mr. John M. Barry of the Washington Post. It reports that you will not rule out any further change in basic social security benefits. You are quoted as saying, "Some social security recipients are getting a windfall." Could you be more explicit about what these windfalls are that some social security folks are receiving?

Mr. STOCKMAN. Senator, let me first say that the Washington Post has been having a bad week. That quote amazed and startled me the next morning because I said nothing of the kind. In fact, I made an explicit statement to the contrary, that we would not seek to balance the budget or any budget savings on basic retirement benefits over the foreseeable future and that is the reason the President withdrew his own plan as proposed by the bipartisan Commission.

For the windfall, I merely use that as an illustration to establish a different point, and that is that sometime down the road to make social security solvent in the long run, we are going to have to change taxes and benefits. The question was being pursued, should you wait 20 years before you change anything? My point was in the last 10 years a lot of current retirees had a huge increase in their benefit due to the rise in the replacement rate that resulted unintendedly from the mistake made when indexing was put in in 1973, and as a result people who went to work in 1940 probably were expecting 33 percent replacement in their social security check if they were an average wage earner. That was true for 25 years and then when the double indexing mistake was made that suddenly escalated the current cohort retirees in 1981 and 1982 to a 55 percent replacement rate.

Congress has acknowledged that error and in the 1977 act took steps to reduce the replacement rate back toward its traditional level over 9 years.

My whole point in that discussion, it obviously got out of context in that story, there was a windfall that nobody had advance notice of. It just happened in the course of legislating over this complex system. So it occurs both ways. I wasn't proposing to change that or take it away, simply to note when you legislate on a system this big and complex, people have changes in their benefits without notice both ways.

Senator EAGLETON. The final question: Senator Dole, in the debate on the tax bill that was enacted in early August in fending off a series of amendments offered by a whole host of Senators, stated that, why didn't all these Senators hold their fire, there was going to be a second tax bill and all these various amendments be considered in that second tax bill. My question is, does the administration contemplate a second tax bill and, if so, what is the timing of it?

Mr. STOCKMAN. I think we have indicated now that because of the severe deterioration in the 1982 budget outlook and the impact that is having on the interest rates, that we do need taxation of a very specific and limited variety this fall and that will generate about $3 billion revenue through closing loopholes and removing obsolete tax incentives.

We hope to have recommendations on that up here shortly. We know there are many on the Hill who have their own ideas. I would hope that kind of bill would be adopted this fall. But we would get ourselves into trouble if we try to load it up with all kinds of new tax benefits that we cannot afford and I make that point very clear today.

Senator EAGLETON. As part of that bill, this fall's bill, will there be any repealers of any portion or portions of the bill that was enacted in early August?

Mr. STOCKMAN. We haven't come to any conclusion in that regard but I am certain there are many on the Hill who have ideas as to what some of those options might be.

Senator EAGLETON. As part of that bill, will there be any recommendation from the administration on tuition tax credit?

Mr. STOCKMAN. We have supported the tuition tax credit idea but I don't believe we would like to see that matter dealt with in the context of the short-term revenue raising bill.

Senator EAGLETON. That would be a revenue loser, not a revenue gainer, right?

Mr. STOCKMAN. That is correct.

Senator EAGLETON. Thank you, Mr. Chairman.

Chairman ROTH. Thank you, Mr. Stockman. We appreciate your being here today.

[Mr. Stockman's prepared statement and responses to written questions submitted by Senator Roth and Senator Levin follow:]

PREPARED STATEMENT OF DAVID A. STOCKMAN

Mr. Chairman and Members of the Committee, I welcome this opportunity to particiapte in your hearing on the use of reconciliation as part of the budget process. Reconciliation, as it has evolved over the past 3 years, is relatively new to all of us. The basic characteristic of the process is that it permits Members of the Congress to vote in a single bill on a diverse set of amendments to a wide range of basic legislation, including amendments that change entitlement programs. In the process, the narrower interests of program constituencies and subcommittees tend to be subordinated to the broader objective of implementing congressionally determined budgetary aggregates and macroeconomic policy goals.

RESULTS THIS YEAR

The Omnibus Reconciliation Act of 1981 represents an important and essential first step in achieving restraint in Federal spending. Before enactment of this act, Federal spending was projected (conservatively) to be increasing at a 10 percent annual rate in the 1982–84 period. The act will reduce Federal spending by more

than $130 billion over this period and reduce this rate of growth by more than 2 percentage points. In this single piece of legislation, over half of the total savings needed to reach a balanced budget in 1984 have been achieved.

BUDGET OUTLAYS: 1981–84

[Dollar amounts in billions]

	1981	1982	1983	1984	Averge annual growth rates 1981–84 (pecent)
Baseline outlays prior to restraint	$662.3	$761.0	$818.5	$875.6	9.8
Effect of Reconciliation Act	0.1	−35.2	−44.0	−51.4	.....
Post-reconciliation outlays	662.4	725.8	774.5	824.2	7.6
Target outlays [1]	662.4	709.3	737.0	771.0	5.2
MEMORANDUM					
Initial size of budget problem in 1982–84 (baseline minus target outlays)	NA	51.7	81.5	104.6	.....
Percent of needed savings already achieved	NA	68	54	49	.....

[1] To achieve 1984 balanced budget.

EFFECTS OF RECONCILIATION

It is hard for me as Director of the Office of Management and Budget to say that a process that was instrumental—indeed essential—in saving such large amounts is defective. Nevertheless, reconciliation has profound effects on important relationships within the executive branch, the legislative branch, and between the two branches. We tend to think of reconciliation in terms of its effect on the budget and thus on the economy. But its most profound effect could well be on the legislative process. This should be clearly recognized. Otherwise, analysis and deliberations on the reconciliation process will be unrealistic and academic at best.

The reasons that reconciliation worked are several:

A budget resolution provides a general ceiling or target for budget outlays, with non-binding functional allocation. Reconciliation was the vehicle by which the Congress could act on a package of reduction measures in a specific way in a specific time frame, much as the president does when he prepares his budget.

Therefore, it was possible to have effective consultation between the leadership in the Senate and the House and the Administration on concrete measures to cut the budget.

Because of its comprehensive nature, most of the committees and Members of the Congress shared the burden of budget reductions. All could claim, correctly, that they were contributing their part to the higher purpose of bringing stability to the budget and growth to the economy.

The reconciliation bill was subject to votes up or down on the entire package. The size of the savings involved was dramatic, and particular amendments that would relieve a particular group or program from budget restraint were highly visible.

To a considerable extent, therefor, reconciliation addresses the most difficult problem of budgeting. A strong programmatic argument for a specific measure can almost always defeat the general argument about the harm of rapid budget growth. This is because, taken alone, any one measure is not itself significant enough to cause the underlying economic problems that have resulted from the budget policies of the last 15 years. This Administration does not agree with many of the arguments that have been used to justify specific programs. In many cases we believe that programs that were reduced or eliminated failed to meet their intended goals or, indeed, were perverse. However, those who support these programs generally believe that, within their own logical framework of analysis or political philosophy, the programs are worthwhile. Under the traditional rules, the battle of the budget was carried out on such philosophical or analytical differences. Reconciliation adds a further dimension to the debate by permitting the argument of overriding national concern for economic revitalization to be weighed against specific program issues.

COSTS OF THE RECONCILIATION PROCESS

If reconciliation has such strong virtues, why shouldn't it become the major technique for dealing with the budget in the legislative branch? My answer is that it probably should—at least it should for the next one or two yers. This is not to say that it should be continued in exactly the same way as this year. There are lessons we have learned on how the processes might be improved. There are substantial costs to the use of reconciliation.

Taking the latter point first, one cost can be characterized broadly as a quality cost. This will probably show up in two respects:

The reconciliation bill must be formulated so quickly that it will be amazing if there aren't defects here or there because of the lack of time to analyze the full implications of all of the measures enacted.

There is a natural selection process under which relatively simple budget reduction proposals tend to be favored over relatively complex ones. There is clear concern that there was not enough time to analyze and understand fully this year's reconciliation bill. More complex proposals would have compounded the problem.

Concerning the latter point, we produced at OMB an initial budget document explaining about 80 percent of our cuts on February 18, a more comprehensive document that completed our budget submission on March 10, and then a third document in April that provided additional details on our budget savings proposals. In the meantime, substantial additional masterial was produced and distributed informally. This effort was in part to help Members understand the measures that were contained in reconciliation. For an organization the size of OMB it was an enormous strain on staff resources, and it is not clear that it would be wise to repeat it every year. Despite all that OMB did and the work of the Budget Committees, CBO, and others, some Members of the Congress were concerned that they were voting for something that they did not entirely understand.

The second set of costs of reconciliation are the changed relationships within the executive and legislative branches—and between them—that result from the centralization of authority required for reconciliation. There are substantial benefits as well. The benefits are that it forces greater discipline in both branches of government. The costs are that it changes the traditional relationships between the President and the Cabinet on the one side and the relationship to the constituent committees on the other side.

This is perhaps more a legislative problem than an executive problem. Presidents have considerable leeway in how much independence they wish to confer on the Cabinet. President Reagan's belief is that the Cabinet should be cohesive and disciplined in terms of the broad policies and philosophy that he was elected to promote. At the same time, he believes that the job of carrying out the details of the programs and the policies should be delegated, with minimal interference from the White House.

In the Congress, reconciliation makes it extremely difficult for committee chairmen and their members to play their traditional roles. The targets that they must meet are set by the Congress as a whole in the reconciliation instruction. They have leeway in meeting them, but they are severely constrained because the Congress has also endorsed, at least implicitly, the assumptions behind the reconciliation instruction. Moreover, as a practical matter there may be few if any alternatives that will achieve the designated savings quickly. Again, reconciliation tends to favor the simple solution over the complex one.

From the point of view of the Congress, the lack of time for hearings is often mentioned as perhaps the most serious loss. Yet hearings have too often been used as advocacy forums, with the witnesses carefully set up and selected to produce an inevitable, predetermined result. That is not to say that hearings are necessarily bad. Rather, too often they have been used by program advocates to load the dice in favor of program enhancements or expansions.

LESSONS FROM RECENT EXPERIENCE

If anything, we have learned that this year's reconciliation process was hampered by its complexity. In hindsight, a considerable portion of this complexity is unnecessary and redundant with other aspects of the budget and legislative process. The reconciliaton bill should not become an annual omnibus substitute for routine authorizations and appropriations. In particular, the inclusion of reduction targets for routine authorization bills was a noble experiment, but one that was cumbersome, inadequate, and redundant. While the committee of the whole may wish to instruct jurisdictional committees on funding levels deemed compatible with overall budgetary or functional aggregates, it is by no means clear that these instructions need

be implemented en bloc in the form of a single reconciliation bill. The legislative workload requirements, scorekeeping task, and policy comprehension requirements are simply too great to be concentrated in an extremely short time for floor consideration.

What this implies is that the reconciliation bill would be better viewed as a selective action-forcing mechanism. It would apply to policy changes needed to achieve budgetary aggregates contained in the resolution that are not likely to receive timely committee or floor action in the normal course of events. Examples of this would include new user fees or other revenue raisers, entitlement programs not up for renewal, and major policy changes in discretionary programs. By contrast, the reconciliation bill would not be concerned with incremental funding adjustments that can be made through the regular authorization and appropriations process.

KEEPING SCORE

One of the major problems that confounded both policymakers and budget technicians was confusion about scorekeeping of items in the reconciliation bill. The instructions simply directed committees to make cuts of specified amounts. The cuts were measured from an indeterminate baseline that was difficult to relate to the President's budget. There were numerous instances where the "cuts" in reconciliation actually represented increases to either the President's budget or the budget resolution. In the future, reconciliation instructions might be better expressed as absolute amounts or funding levels after policy changes have been made. The reconciliation instructions woud then direct committees to set specified caps on authorizations or spending levels. Committees should be held responsible for deliberate overages in these amounts.

In addition, there should be initial agreement to codify the rules of scorekeeping. This would assist the committees in measuring the real impact of their actions and prevent false or misleading savings. This year, for example, the House committee reconciliation bill included a variety of false savings such as:

Bookkeeping gimmicks.—The House Public Works Committee proposed to offset program increases by lapsing $159 million in unobligated highway contract authority. The President's budget contains no budget authority or outlay impact for this authority. The House Energy and Commerce Committee claimed an additional budget authority saving of $900 million in 1982 merely by increasing the amount of the strategic petroleum reserve that was shifted off-budget.

Escape clauses that negate savings.—The Merchant Marine and Fisheries Committee claimed $280 million in budget savings over the 1982–84 period through the imposition of a new $5 per ton fee for ocean dumping of sewage and the like. However, it also included language allowing the fee to be waived if it would result in "undue economic burden to the ocean dumper." The Education and Labor Committee claimed 1982 savings of $929 million for child nutrition programs by, among other things, eliminating meal subsidies for child care center suppers. However, a later section of the bill specified that lunch could be served at any time during the day.

Authorization caps for entitlement programs with no change in underlying eligibility structures.—The Agriculture Committee imposed an authorization cap on the food stamp program to produce $1.46 billion in savings in 1982 and larger amounts thereafter. However, it made no changes in the underlying structure of the program so that spending could reasonably be expected to stay within these limits.

Claiming credit for savings assumed to occur outside of reconciliation.—Several committees claimed credit for savings that were assumed to occur outside of reconciliation. For example, the House Public Works and Transportation Committee claimed savings of $139 million in 1982 budget authority for airport development grants even though this program was excluded from the reconciliation instructions.

MULTIYEAR PERSPECTIVE

In order to be useful, a reconciliation bill clearly needs a multi-year focus. One of the main problems with the Reconciliation Act of 1980 was that some committees merely shifted spending from one year to another, or adopted temporary cuts, thus increasing long-term costs. This year the reconciliation directive extended to 1984, thus eliminating some of last year's gimmicks. However, even this year's experience emphasizes the need to begin early. Entitlement programs in particular tend to develop a momentum of their own. It takes time to hold hearings, pass legislation, and implement administrative regulation.

There is a serious tendency for the effect of important legislative reforms to become eroded during the first budget year after policy change. For example, the Administration proposed $6.5 billion of reductions to the 1982 budget for AFDC,

medicaid, food stamps, guaranteed student loans, and child nutrition programs combined. This proposal reduced these programs from $45 billion under current law to $39 billion. However, during action on the reconciliation bill, the savings were reduced by $2.2 billion. Reestimates in July further eroded the savings by $1.6 billion. Delays in regulations and other measures necessary to achieve the savings, as well as unanticipated increases in caseload, threaten to erode the savings by another $2 billion. If this happens, 1982 outlays for these programs will end up virtually where they began in March under current law.

Not all of these problems affect 1983 and 1984 savings, which will grow substantially above those for 1982. Nevertheless, the combination of some slippage on policy reforms, the upward pressure on reestimates, and implementation delays together reinforce the importance of the urgency of reform legislation and the need for adequate lead times to make the reforms effective on schedule.

Entitlement slippage: 1982 outlays for AFDC, medicaid, food stamps, guaranteed student loans, and child nutrition

	Billions
March current law total	45.3
Savings proposed by the administration	−6.5
Reconcilation policy slippage	2.2
Additional slippage for reestimates	1.6
September total	42.7
Further potential reestimates	2.1
Potential total	44.8

CHANGES IN RECONCILIATION

At first glance, it would appear that suggestions for simplifying the reconciliation bill would exclude so much from the reconciliation process that it would be far less effective. This need not be the case if the Congress were to adopt a practice of voting on two separate reconciliation instructions. The first would be similar to the one used this year. It would instruct committees to supply language for an omnibus reconciliation bill by a specified date. However, it would be primarily an action-forcing instruction limited to automatic spending and major new proposals. A second instruction would be voted on, covering other authorizing legislation that is expected to come up routinely during the legislative year. The instructions here could be selective, addressing only those routine funding levels for which the Congress desires to give explicit directives to its jurisdictional committees. As a result, where necessary, authorizing legislation could be brought into conformity with the budget resolution, but not all of it would have to be in the reconciliation bill.

Given this narrower concept of a reconciliation bill, it should be practical to give more weight to the programmatic assumptions underlying the reconciliation instructions. Committee discretion on how to come up with savings is now too broad. If the Congress—in passing the instruction—assumed an entitlement cut or a user fee, the broad outlines of this guidance should be followed.

RELATIONSHIP TO THE RESOLUTION

In considering reconciliation and the first budget resolution, I believe the Senate was wise to separate these actions and vote on them separately. This way, Members understand more explicitly the implications of what they are acting on. Furthermore, the Senate—by voting on the reconciliation first—made it easier to ensure that the resolution was consistent. If the order were reversed, it would be possible to vote a resolution that was more restrictive than the reconciliation needed to achieve the budget targets. I would commend the Senate's procedures to the House.

RESTORING BUDGET EQUILIBRIUM

Even with these suggested changes, reconciliation moves us, to some extent, in the direction of a parliamentary system. Centralized decisionmaking and discipline are increased. We may need that for the next two years. We must correct the imbalance that has grown up between the size of budget programs and the ability of our economy to sustain them.

There is, however, no abstract principal by which the merits of a relatively centralized versus relatively decentralized budget process can be resolved once and for all. The choice depends on the problems and issues that need to be faced and the

urgency needed in facing them. In the current economic environment, rapid and permanent decreases in the momentum of Federal spending are essential. It is in this context—particularly in view of the lags between legislative action and budget effects—that there is a strong argument for continuing to use reconciliation, but with some modifications such as those I suggested. In other years, the more traditional legislative process may be appropriate.

The process of restoring the balance between budget programs and budget resources is also the process by which we will restore economic vitality. If reconciliation is essential to achieving budget equilibrium, then—paradoxically—it will save the system it is temporarily displacing. After the restoration of budget equilibrium and economic growth, we will more easily be able to afford the luxury of protracted debates through committee hearings and other channels. We will be able to act with more deliberation and less haste. If we have made mistakes, we will be able to correct them. This is not to say that we will overcome the need for budget discipline. There will still be strong and sincere presssure to throw money after problems regardless of effect. It will be difficult to maintain the smaller size, proportionally, of the public sector, but not so difficult as achieving it.

RESPONSES TO WRITTEN QUESTIONS SUBMITTED BY SENATOR ROTH

Question 1. How can we insure that the recently reported practice of using numerous deferrals to reduce federal spending will not undermine congressional authority over spending decisions in ways the 1974 Act was intended to prohibit? In other words, if funds are withheld from programs because Congress physically cannot scrutinize them fast enough, isn't the Congress' power of the purse severely curtailed?

Answer. Some of the recent reports have greatly exaggerated the number of deferrals that the Administration plans to submit over the next several weeks. I do not believe that the deferrals being transmitted will physically overwhelm the Congress.

The purpose is not to overwhelm Congress. Rather, the Administration is doing its utmost to comply with the provisions of the 1974 Act and preserve Congress' power of the purse.

Question 2. In your statement you mention the enormous strain placed on OMB staff resources this past year in the context of discussing the quality costs of the reconciliation process. What steps have you taken, and what steps do you intend to take, to reduce quality costs on the OMB, and to assure that relatively complex budget reduction proposals are not ignored in the budget development process?

Answer. Many of the strains that were placed on OMB staff this year were the result of the unique circumstances we faced this year—the change in Administrations, the need to develop a comprehensive budget reform plan and the unprecedented scope of the reconciliation process. The changes to simplify reconciliation that I discussed in my statement would help to reduce the strain that was placed on both OMB and congressional staff this year.

Question 3. In discussing the problem of developing accurate economic forecasts and spending estimates, you mentioned the need to work more closely with the CBO. What actions have you taken and what actions do you intend to take to address this need?

Answer. There has always been good communication and sharing of ideas, techniques and data between CBO and OMB at the staff level. We intend to encourage and strengthen the staff-to-staff interchange to help narrow some of the ubiquitous "technical estimating differences." At the policy level, Director Rivlin and I have been meeting to explore the extent to which we cah harmonize our forecasts—without, of course, compromising our obligations to provide independent assessments regarding the economy and the budget. We have a mutual interest in this effort, which we are pursuing, so that the budget processes in the executive and legislative branches do not start from bases that are poles apart.

Question 4. What is the Administration's current position on proposals to limit total Federal spending to a certain percentage of the Gross National Product?

Answer. I think that viewing Federal spending and receipts as a percentage of GNP is an excellent summary yardstick for measuring progress toward reducing the scope and intrusiveness of government in our society. There are others, of course.

I am not in favor of a rigid statutory or constitutional numerical ceiling on spending or receipts. For one thing, the Federal Government has to chart a steady policy course and have the flexibility to respond to true emergencies such as World War II. Under a spending limitation, we could do neither. If GNP were even modestly off track, for example, we would have to take unplanned spending or tax action. This

would increase uncertainties and lead to market behavior that would be bad for the economy. Secondly, GNP is just a stastical construct. We can forecast it for a year or two ahead, but we are sure to be off at least a little. Even historical GNP statistics are subject to significant revision as later information becomes available. The question of whether we complied with a law or amendment should not turn on a technical reestimate of GNP. Also, a spending ceiling that does not specify how you get from here to there begs the real issue: Which programs do you reduce, and how do you achieve your objective?

Question 5. There has been increasing discussion of a biennial budget process, under which we would take 2 years to develop and enact a budget for the following 2 years. Do you have any comments on this idea? What effects would such a biennial budget have on our ability to control Federal spending?

Answer. Under the present circumstances, I think we all need to work hard every year to reverse twenty years of spending momentum. However, both the Congress and Executive need to view the budget in a multi-year pespective. As I indicated in my statement, a large portion of the budget cannot be changed quickly. There are long lags between policy changes and actual outlay effects. There is also a serious tendency for the effect of important legislative reforms to become eroded. It takes time to hold hearings, pass legislation, and implement administrative regulations.

At the same time, we need to recognize that circumstances frequently change between the time a budget is developed and is actually carried out. Even under the present system of annual appropriations, the Congress has had to enact a variety of supplementals after the regular appropriations were enacted. This year the Congress also rescinded some previously enacted funds. Under a biennial system, there would undoubtedly be more supplementals and rescissions than now.

Question 6. The President's budget clearly sets, to a large extent, the Congress' agenda. Can and should Congress take more initiative in the process, perhaps by requiring:

(1) The President to submit the current services budget on November 10 as required by Sec. 605 of the Budget Act?

(2) CBO to submit a current services budget in November?

Can you suggest any other ways in which Congress might assume a more responsible role within the process?

Answer. The President did submit current services estimates in November for two years. After consultation with the Congress, there was joint agreement that the estimates should be submitted in conjunction with the President's budget. This change was made largely because OMB found the November submission took a lot of work and the Congress did not find the November submission useful. The President's January budget was inevitably based on later information about the economy, actual spending, and congressional action than the November submission. One of the main uses of current services is to provide a yardstick against which to measure the President's budget proposals. A November submission does not provide the basis to do so.

Question 7. I am concerned that we seem increasingly to be duplicating ourselves, making and remaking the same decisions in our budget, authorization, and appropriations processes. Do you share this concern, and would you care to offer any ideas on what we might do about it?

Answer. The current process requires consideration by as many as six committees (three in each House) of amounts to be appropriated: the Budget Committees for the concurrent resolultions; the substantive committees for the authorizations; and finally, the appropriations committees. You may want to consider reviewing and perhaps changing some of the rules of the Senate to encourage a process that requires authorization committees to focus increasingly on programs and less on their specific annual cost. This might permit increased and thus more knowledgeable attention to whether programs are accomplishing their purpose and what program level should be authorized to accomplish objectives. Following these sort of actions, the appropriations committees would spend their efforts on the cost of programs and how much of Federal resources should be allocated.

Question 8. GAO's recent report, "Federal Budget Concepts and Procedures can be Strengthened", identifies a number of needed improvements in Federal budgeting concepts and procedures. Several could be implemented by OMB administrative action—for example, steps to improve estimates of budget outlays and deficits, steps to better control year-end spending, etc. Are you familiar with the GAO report, and what administrative actions are you taking to implement the recommendations?

Answer. The GAO report was directed toward extending budget coverage, streamlining and improving the budget and legislative processes, and enhancing budget accountability, controllability, and the realism of budget estimates. OMB shares the

interest of the Congress and GAO in these areas has taken a number of administrative actions to achieve these ends. For example, this year budget justification requirements were revised to make them more flexible and eliminate excessive paperwork. In addition to reminding agencies to take actions necessary to avoid wasteful year-end spending, OMB directed agencies to develop advance procurement planning systems and procedures for close scrutiny of planned fourth quarter purchases. We also have taken steps to ensure that indefinite budget authority is handled on a consistent basis, Government-wide, that accurately reflects the full extent to which this authority is used.

For the most part, the GAO report is a compilation of previous recommendations, and detailed OMB views have been provided to the appropriate Congressional committees. However, as the GAO report indicates, the majority of their recommendations cannot be effected through administrative action alone. We will continue to work closely with the Congress to develop legislation to strengthen budget concepts and procedures.

Question 9. The Comptroller General has suggested establishing another Commission on Budget Concepts, similar to President's 1967 commission, to study the question of budget coverage and many of the technical issues related to the way budget information is developed and presented in the budget document. What are your thoughts on this suggestion?

Answer. At the time the 1967 commission was established, the Executive was using three different budget concepts. There was relatively little congressional interest in budget concepts; the congressional budget process was fragmented and there was not effective mechanism whereby the Congress could review budget totals. One of the main roles of the 1967 Commission was to define the nature of the problem and establish basic groundrules for the presentation of budget data.

Today, the situation is very different. There is general agreement on the basic concepts. There are periodic discussions on technical issues between OMB, the Budget Committees, and the Congressional Budget Office, which were established by the Congressional Budget Act of 1974.

There are new issues that need to be addressed—such as the treatment of off-budget outlays, which have grown dramatically since 1967. We also need more discipline in following the agreed upon general concept. However, I think that these issues can be addressed directly by OMB and the Congress without establishing another Presidential Commission.

Question 10. The Budget Act established what, in hindsight, appear to be some pretty ambitious milestones for completing various congressional authorizing, appropriation, and budgetary actions. Which parts of the timetable are, from the Administration's perspective, most difficult to comply with? In light of our experience under the Budget Act, would you suggest making any changes in the timetable for authorizations, appropriations, or budget resolutions?

Answer. From the Administration's perspective, the timetable set forth in the Congressional Budget Act seems reasonable. The difficulty in complying with the timetable is primarily on the part of the Congress. It seems clear that the additional three months that the Congress gave itself by changing the fiscal year has not yet provided sufficient time. Perhaps it can be said that the process has expanded to fill the available time. You might want to consider dispensing with the large number of annual authorization requirements for the many programs that do not undergo significant change that often and expanding the oversight role of the Congress to more rigorously evaluate the effectiveness of Federal programs.

Question 11. GAO in its recent report on Federal Budget Concepts stated that existing budgetary practices sometimes act as disincentives on the willingness of program managers to save funds, and suggested that consideration be given to allowing managers to keep part of the funds they save (as an incentives to savings). What do you think of this idea?

Answer. OMB has received many suggestions of this type over the years. We believe that good managers are best rewarded by the existing systems established for that purpose. For many years, the incentive awards system has provided monetary awards and recognition to Federal employees who have submitted cost saving suggestions. In addition, the Civil Service Reform Act provided merit pay for middle management and bonuses for the Senior Executive Service. If organizations were permitted to retain part of identified savings, this could result in excessive budgetary resources for that program. Put another way, if a program manager cuts back a program by making it more efficient reducing lower priority activities, it is illogical to then partially restore the reduction. Moreover, this practice could permit activities to be carried out at levels not contemplated by either the Administration or the Congress in the budget process.

Question 12. When the Federal Financing Bank (FFB) was created, it was viewed mainly as a "pass through" mechanism for handling and coordinating agencies' borrowing from the private sector. Since its creation, however, the FFB has mainly borrowed from the Treasury and served to convert on-budget loan guarantees to off-budget direct Federal loans. Don't you think that this current FFB undermines the integrity of the budget's totals and generally congressional budget control?

Answer. The Administration's concern about the FFB and the overall growth in Federal credit activities was voiced in the March Budget Revisions. The FFB has furthered the rapid growth of Federal credit because Congress has found it easy to vote for loan guarantees that are actually direct loans when they are financed by the FFB. In addition, Congress has permitted two agencies—Farmers Home Administration and REA—to borrow from the FFB but score the funds as offsetting collections. The FFB was created to minimize the impact of many Federal agencies selling securities in the financial markets by providing a coordinated financial management approach. This is a valid purpose and ensures that borrowings are financed efficiently and in a manner least disruptive of financial markets and institutions.

The Administration is exploring a variety of proposals for reducing the level of Federal credit activities, including the appropriate role of the FFB. In general, our concerns focus on the underlying cause of the growth of the Bank—the rapid expansion in Federal credit programs, particularly guarantees.

RESPONSES TO WRITTEN QUESTIONS BY SENATOR LEVIN

Question 1. Given the fact that the Budget Act of 1974 set out a detailed procedure for reconciliation in the contest of the Second Budget Resolution, showing that the authors of the Budget Act knew how to draft reconciliation language, and given the fact that the authors of the Act have made clear that reconciliation was never intended to be in the First Budget Resolution, and, finally, given the fact that the managers of the conference report on the Budget Act drew a distinction between the "enactment of budget authority" and the "authorization of budget authority" and stated that the general language which is now used to allow reconciliation as part of the First Budget Resolution did not give the Budget Committee power to mandate change in authorizations for budget authority, when evidence do you have of congressional intent in the Budget Act of 1974 that the reconciliation procedure be permitted as part of the First Resolution and that it include the reconciling of authorization levels?

Answer. Reconciliation is a directive that the Congress imposes upon itself. It was the Congress itself that decided to make reconciliation part of the First Resolution and to include authorizations. The First Budget Resolution for fiscal year 1981, which the Congress adopted last year, included a reconciliation directive. The First Budget Resolution for fiscal year 1982, which the Congress adopted this year, included a reconciliation directive to reduce both direct spending and authorization levels.

Question 2. In your testimony you acknowledged that one of the costs of reconciliation, which you view as an acceptable cost, has been the centralization of authority. Where do you view this power as being centralized?

Answer. As I indicated in my statement, reconcilation has made it easier to carry on an organized dialogue between the administration and the congressional leadership on specific ways to reduce the growth of Federal outlays. This is the "centralization" to which I referred.

Question 3. In your testimony, you also refer to the changed relationships within and between the executive and legislative branches as a result of the reconciliation process. Shouldn't such basic changes in the structure and operation of government in general and the budget process in particular be made only after there has been clear and express congressional authorization and intent?

Answer. The adoption of the reconciliation instructions and the Omnibus Reconcilation Acts constitute clear congressional authorization and intent.

Chairman ROTH. Senator Hatfield, I appreciate your politeness in waiting for your turn. I regret that the whole proceedings had to be delayed, but I look forward very much to your comments, knowing the significance they have since you serve as chairman of the Appropriations Committee.

TESTIMONY OF HON. MARK O. HATFIELD, U.S. SENATOR FROM THE STATE OF OREGON

Senator HATFIELD. Mr. Chairman, I know we are all on very tight schedules and I do have a 2 o'clock meeting. I will have to summarize my remarks today. I do submit my entire statement for the record.

I am very grateful for this opportunity and for your invitation to appear before your committee. I am sure that you agree that this is not a subject which warrants merely a few days of exploratory hearings, but rather requires a comprehensive review of the original act and the manner in which it has been implemented and substantial statutory changes.

While several parts of the budget may need fine tuning, and I would include the impoundment provisions of title X in this category, I would like to focus the committee's attention on what I believe to be two key problems with the act and its implementation. One is a defect in the original act—the failure to put effective restraints on uncontrollable spending. The second is the abuse in the implementation of the act which has occurred in the past 2 years.

One of the major fiscal problems Congress confronted in the early 1970's was the extraordinary growth in uncontrollable Government spending. By 1974, 72 percent of the budget, or $195 billion, was outside the control of the annual budget process.

The solution adopted was the weaker of the two proposed—the Senate version, which became section 401 of the Budget Act. This section prohibits creation of two types of uncontrollable spending, contract and loan authority. Regarding entitlements, however, Congress refused to enact stringent controls, and settled for a referral process for those proposed entitlements which exceed a committee's most recent allocation under section 302 of the Budget Act.

This formula has not proven to be the slightest brake on the growth of entitlement spending. And no wonder, for the concept is flawed. Comparing the estimated current year cost of an entitlement to the present year's section 302 allocation is simply not a meaningful test. The cost of such a program can increase tenfold in just a few years, especially if it is indexed, because there is no regular review, such as the annual scrutiny afforded by the appropriations process.

Let me be sure that this committee understands exactly what these uncontrollables are doing to our budget. According to OMB statistics for fiscal year 1982, uncontrollable spending will comprise 78 percent of outlays, or an estimated $550 billion. This leaves the Congress with only 22 percent over which it can exert control through the budget process.

Furthermore, of the 22 percent of the budget which can be reached, 17 percent is in defense programs, leaving only 5 percent of the entire Federal budget request for fiscal year 1982 characterized as controllable for nondefense programs. Few would label these programs "discretionary," as they contribute so much to our national identity and pride. Yet they are discretionary in budget terms, and thereby bear the brunt of budget-cutting efforts, as the uncontrollables are so difficult to reach. President Reagan's propos-

al to slice another 12 percent from these programs is only the latest example.

As a starting point, the committee might reconsider the language originally adopted by the House in 1974. That bill contained a flat prohibition on the adoption of new spending authority, unless such spending authority is effective "only to such extent or in such amounts as are provided in appropriations acts * * *." For existing spending authority, the House bill provided that after 4 years, no employee of the United States could exercise that spending authority except "to such extent and in such amounts as are provided in appropriations acts * * *." This latter proviso, which would give Congress the time required to insure a smooth transition for these programs, is absolutely essential to control spending. For while Congress continues to enact entitlement programs, for example, new veterans benefits which were sent to the President last week, the great rise in uncontrollable spending is due to indexation of existing programs. For example, no new benefits have been added to the social security system since medicare in the late 1960's. But outlays have increased in that same period from $24.3 billion to $142.8 billion.

Dealing with the problem of uncontrollable spending will be one of the thorniest this committee will confront in attempting to solve the deficiencies in the Budget Act. We all know the sensitivity of many of these entitlement programs, such as social security. Yet an effective means must be found. To quote a statement from President Carter's budget submission for fiscal year 1982:

> * * * we have reached the point where uncontrollable spending threatens the effectiveness of the budget as an instrument of discretionary national economic policy. It is extremely difficult to balance the budget, for example, when more than three-quarters of all spending is determined by factors that are normally beyond the control of the President and Congress in any given year.

Given the abysmal condition of our Federal budget due to the growth of uncontrollable spending, it is not surprising that officials would seek extraordinary means to reduce spending. The extraordinary means utilized was reconciliation.

From a last gasp mechanism designed to bring spending within congressional ceilings just a week prior to the beginning of a new fiscal year, reconciliation has been converted to the preeminent device to establish budget levels years in advance. The whole thrust of the use of reconciliation this year is foreign to the concept as set forth in the Budget Act. While a natural evolution of our procedures under the act is understandable and acceptable, I have very serious reservations, which I know to be shared by a number of my colleagues, about the radical departures adopted this year. Let me specify my concerns.

First, I believe Congress must preserve its flexibility to make budget decisions in light of the most recent economic conditions. This was the core of the question of whether the first budget resolution should carry binding, or merely target figures. The Congress determined that it was too early to set binding figures on May 15—just 4½ months prior to the beginning of the new fiscal year. Binding levels were only to be established in the second concurrent resolution, adopted by September 15, or subsequent resolutions.

What has happened this year to this concern about setting binding levels too early in the process? In March, the Senate Budget Committee reported a third budget resolution for fiscal year 1981, which also included required spending reductions for fiscal years 1982, 1983, and 1984. Because these figures were contained in a third budget resolution, not a first resolution, they would be considered binding if agreed to by both houses. The fact that the 1982, 1983 and 1984 figures were contained in a third resolution for 1981 was of no consequence.

My recommendation would be to preclude the setting of any binding figures for any fiscal year prior to the second concurrent resolution for that year. Congress would still be able to set targets for the outyears if it so desired. But we would not be in the absurd situation of establishing binding figures for future years.

Another unprecedented step taken this year was the requirement that legislative committees reduce authorization levels. The Joint Explanatory Statement of the Committee of Conference on the Budget Act stated that the authorization of budget authority was beyond the reach of the Budget Committees. But because this language applied only to a first concurrent resolution, and the resolution in question was technically the third budget resolution for fiscal year 1981, such action by the Budget Committee was permitted and acquiesced to.

The Gramm-Latta substitute offered on the House floor also contained authorization reductions, and with the acceptance of that substitute, the survival of instructions to reduce multiyear authorizations was assured. Incidentally, Mr. Chairman, on the House floor, this instruction was termed "An astounding usurpation of the function of the legislative committees * * * and way beyond the authority of the Budget Act."

I stated my objection to this practice at the time, and I reiterate it now. This step was unnecessary, as the Appropriations Committees have their own section 302 allocations which cover these same programs. The function of the Appropriations Committees has been to balance program needs, as determined by authorizing committees, with national spending priorities. For example, in fiscal year 1980, appropriations were only 57 percent of authorized levels, for those programs with specific authorized amounts.

I would like to quote Allen Schick, who has written extensively on the budget process, on the effect of this instruction to the legislative committees:

> * * * In the division of legislative labor, Congress has a dual structure that enables it to respond to conflicting pressures to guard the Treasury and to finance government programs. The authorizing committees generally behave as advocates; their job is to assess the needs of programs within their jurisdiction, not to tend to the overall fiscal condition of the United States. The principal role of the Appropriations Committees is to guard against excess spending. The extension of reconciliation to discretionary legislation has severely curtailed the advocacy role of many Authorizing Committees. They cannot recommend legislation in accord with their assessment of program needs but are limited to predetermined amounts. To make matters worse, these limits are for three years, and have been set below current appropriation levels. In other words, it is not a matter of moderating their advocacy, but of virtually ending it * * *

I believe this division of labor has served Congress well, yet it has been severely undermined with the instructions to reduce pro-

gram authorizations. I recommend that the Budget Act be amended to prohibit the Budget Committees from directing legislative committees to reduce authorizations. The Budget Committees should continue, of course, to direct legislative committees to reduce direct spending programs. As these programs are outside the appropriations process, there is no other means in the budget process to reach them.

Finally, with regard to reconciliation, some committees included legislation with no budgetary impact in their reconciliation packages. Initially, these nongermane matters were deleted in the Senate through a bipartisan leadership amendment. Subsequently, however, much of this same legislation was inserted through additional floor amendments, and survived conference.

I recommend that the Budget Act be amended to prohibit legislation with no substantial budgetary impact from inclusion in reconciliation bills.

Mr. Chairman, my complete statement contains three recommendations for strengthening impoundment provisions of title X.

In general I judge that the impoundment provisions of the Budget Act have been successful. In fiscal year 1981, for example, President Reagan recommended rescissions of $15.1 billion in budget authority, and the Congress approved $14.3 billion, or 95 percent, of this total which was more than the accumulated rescissions since the Budget Act was signed into law.

While former Presidents were not as successful in securing congressional approval of proposed rescissions, this does not indicate that the process is inadequate. Rather, former Presidents could not muster the political support for their proposals. For this reason, I oppose amendments to increase the power of the President to withhold appropriated funds from obligation, such as S. 384, which would empower the President to rescind funds unless Congress adopts a concurrent resolution disapproving it. The problem of rising expenditures is not attributable to the discretionary programs which are subject to rescissions. Restraining outlays can only be accomplished by attacking uncontrollable spending.

Chairman ROTH. Thank you, Senator Hatfield. I, again, regret that the scheduled White House meeting delayed the whole process. I understand that you have to leave almost immediately. I would like to ask, if I could, a couple of brief questions.

First of all, let me say that I agree with you that any revision of the budgetary process, which involves really the authorizing committees as well as the Appropriation and Tax Committees, must be the result of a very careful study. We do plan in this committee to hold a series of hearings and try to come up with some recommendations as to how to proceed. One proposal that has come up from a number of people is that we try to have a 2-year, shall I say, budgetary process with authorizations covering at least 2 years, appropriations doing the same so that fiscal matters could be concentrated upon 1 year and maybe the second year the Congress could concentrate on authorizations and deauthorizations. Does that have any appeal to you?

Senator HATFIELD. Mr. Chairman, I functioned for 8 years under a 2-year budget. We had a biennial session of the Oregon legislature while I was Governor. We had to project both our expendi-

tures and revenues for a 2-year period. Of course, on that small scale we had great difficulties even though we were able to make it function fairly well. I look at the track record of what we had in Congress in the 1970's, when we averaged—averaged—five supplementals a year. There was one year I believe we had as many as nine supplemental bills.

We have more recently combined all the supplemental requests into one bill. But that track record would not indicate we have been very deft at projecting our expenditure programs. From that track record I would say if we haven't been able to do it on an annual base any more effectively or accurately, I am not so sure a 2-year base for funding these programs is going to be a solution.

I am sure with a major overhall of the whole budgetary process, with some greater restrictions on the criteria in presenting supplementals that it might be worth a try. But I come back to that one simple fact. When we are talking about 5 percent of outlays in nondefense, controllables, we are really not talking about the basic problem there. We are talking more about these things that have escalated. For instance, food stamps have escalated or guaranteed student aid loans, so forth.

Others we have not been able to predict. We had to appropriate through supplementals because of the escalation. I am not sure it would be worth the whole restructuring of the budgetary process to get at 5 percent of the budget. That has not been our major problem even in the supplementals.

Chairman ROTH. As I understand the principal thrust of your testimony, a key problem is the fact so little is reviewed by your committee. And I think that is a problem that must be carefully studied, we must see if we can't limit what some people call back door financing. I would certainly agree with you that we ought to take a hard look as to why your committee or the appropriation process is bypassed. Let me ask you one final question—I know you have to leave at 2—when Congressman Bolling, chairman of the House Rules Committee was here earlier today he felt that the setting of the overall budgetary limits was primarily a problem of leadership, and on that side that is somewhat exercised through the Rules Committee.

On this side it is done through our Policy Caucuses. Would you see any value for the budgetary process in having on the Budget Committee a better representation, not only from the Appropriations and the Tax Committees but perhaps the chairman and ranking members of the key authorization committees so that whatever decision is made is a joint function?

Senator HATFIELD. Mr. Chairman, you and I have had a number of informal discussions on this whole problem. I recall you raised this possibility or alternative of making the Budget Committee really a compilation of chairmen and ranking priority members of all the other committees. It has great appeal because of the fact it would bridge what seem to be certain gaps which have resulted in the creation of an adversary relationship that exists on occasion between the Budget Committee and the authorization committees and the Budget Committee and the Appropriations Committees. We know what that adversarial relationship was a few years ago. It was fierce.

I think now it is probably at its minimum level because of the determination of both Senator Domenici and myself. We have sought to work out these matters and problems without letting them come to a crisis situation. But I do feel there has to be some way to bridge that and eliminate this "we and they". I think there is a perception that the Budget Committee has arrogated to itself autocratic powers, usurping the authorizing committees' responsibilities and those of the appropriations process. Rather than to stand back and throw darts and call names, we should seek to bridge this chasm.

I really feel this is where your role is going to be of paramount importance because I frankly don't think that the Senate can go through another reconciliation process the way we just finished here a few weeks ago. We abandoned, practically abdicated, the whole legislative process for the outyears in the name of emergency, in the name of the crises we were facing. That kind of mentality is very dangerous and can lead us to all kinds of excesses.

I am not about ready to yield or acquiesce and say all for the sake of the party, for the sake of the administration, for the sake of the problem we are facing we are all going to have to bow down and yield these responsibilities in this fashion. I just don't think we can go through that process again. I think that is what is ahead of us. If I may have just 1 second. We are talking about how we are now faced with President Reagan's new program for 12 percent reduction.

Mr. Chairman, as you recall, we supported the President's rescission recommendations to the $14.3 billion level. Then another $20 billion was reduced in the so-called discretionary funds in the reconciliation process. In both of those processes, we did not touch $1 from defense expenditures nor did we really have much impact on the overall mixture of entitlements, except in reconciliation where I think it was about a $15 billion impact. Now we have this request by Mr. Stockman and company that we cut 12 percent in discretionary accounts.

Mr. Chairman, this is very important to recognize. When we talk about cutting 12 percent in these accounts, it is 12 percent from what? From what baseline? From the reconciliation baseline? No. From the March baseline when the President made his first budget request? No. It is from the July budget request level, which means that we are really talking now in effective dollar volume of reducing some $35 billion more in budget authority, rather than $26 billion, to achieve the President's goals.

I just had the Appropriations Committee staff go over the proposed reductions to assess their impact. This does not take into consideration what we already reduced in fiscal year 1981. We are talking about reducing energy research and development programs by 31 percent, not 12 percent, 31 percent below the March request, which means about $668 million. Such a reduction would definitely impact on programs like the Clinch River breeder reactor.

Let's take another example. In the health field, a 12-percent cut for the National Institutes of Health that would be $507 million below the present subcommittee recommendation, and would reduce the funding below the 1980 fiscal year level.

In the field of education, Mr. Chairman, compensatory education for the disadvantaged, a 12-percent cut there would be $495 million below the present subcommittee recommendation. That would result in 841,000 fewer children being served by school districts, compared to the subcommittee's mark which itself is substantially below the reconciliation target.

Let me mention one or two more examples. In the Small Business Administration, the direct loan program would be eliminated, as would the juvenile justice program at Justice. In Agriculture, Mr. Chairman, the cut would provide over $1 billion less for food stamps than FDA's the estimate based on reconciliation.

Energy conservation, the proposed reduction would put the program level 88 percent below the original 1981 level.

Now what I am saying here is because we have such a shrinking base of annually controllable expenditures, these are taking more and more of the brunt of these reductions, in order to help balance the budget by 1984. I want to say to you in all honesty, it just can't be done. I don't think anyone is going to want to participate in an act to make a decision between a $2 billion reduction outlay in military defense, only $2 billion, and the Tennessee-Tombigbee project, or a $2 billion defense cut and the Clinch River breeder reactor project, just to cite a couple of examples that are not most popularly received. We are at that point where we are not reducing, we are excising these programs. Unless we can get some kind of a budget reform where entitlements and military spending are brought under some kind of control, Mr. Chairman, we could literally abolish the total discretionary funding programs of all kinds—housing, transportation, education, health, space, natural resources—and we still are not going to balance the budget by 1984, in my view, if we don't take some action on these other uncontrollables.

Chairman ROTH. Senator Hatfield, I appreciate your frankness. I must say I share your concern. I feel strongly we are going to have to look at these entitlements. I must say as one Senator who happens to believe in increased defense spending, I also believe that it must be subject to the same scrutiny and a slower phasein than proposed by the administration.

Senator HATFIELD. Mr. Chairman, I know how you feel on that. Let me also say for the record that last year, the Appropriations Committee developed a study that indicated we had a $4 billion cost overrun in military procurement—a cost overrun of $4 billion. There are a lot of ways we can tighten up; a lot of that is interest cost on procurement. Let us be mindful that a 1-percent reduction in interest rates has a billion dollar impact on our whole budget program.

Anything we can do to bring those interest rates down is going to help that. All we can do to control the overruns in the military doesn't in any way diminish our military strength but I think makes us stronger.

Chairman ROTH. Incidentally, we are having some hearings on military procurement in this committee later this month. We would like to work with your staff on that.

Senator HATFIELD. I would like to very much.

Thank you.

[Senator Hatfield's prepared statement follows:]

PREPARED STATEMENT OF SENATOR MARK O. HATFIELD

Mr. Chairman and members of the committee: I appreciate your invitation to present my views on the Congressional Budget and Impoundment Control Act of 1974. Reflecting concern about our budget process, Congress last year adopted a resolution calling for a "full-scale review of the Budget Act and congressional budget process". I believe such a review is sorely needed, and would urge this Committee to see reforms through to the end. This is not a subject which warrants merely a few days of exploratory hearings; rather, it requires a comprehensive review of both the original act and the manner in which it has been implemented, and substantial statutory changes.

While several parts of the Budget Act may need fine-tuning, and I would include the impoundment provisions of Title X in this category, I would like to focus the Committee's attention on what I believe to be two key problems with the Act and its implementation. One is a defect in the original act—the failure to put effective restraints on uncontrollable spending. The second is the abuse in the implementation of the Act which has occurred in the past two years.

GROWTH OF UNCONTROLLABLE SPENDING

One of the major fiscal problems Congress confronted in the early 1970s was the extraordinary growth in uncontrollable government spending. By 1974, 72 percent of the budget, or $195 billion, was outside the control of the annual budget process. This represented an increase from the 1967 figure of 59 percent, or $94 billion. Bringing this spending under control was the major priority of the Appropriations Committees in the formulation of the 1974 Act.

The solution adopted as the weaker of the two proposed—the Senate version—which became Section 401 of the Budget Act. This section prohibits creation of two types of uncontrollable spending, contract and loan authority. Regarding entitlements, however, Congress refused to enact stringent controls, and settled for a referral process for those proposed entitlements which exceed a Committee's most recent allocation under Section 302 of the Budget Act.

This formula has not proven to be the slightest brake on the growth of entitlement spending. And no wonder, for the concept is flawed. Comparing the estimated current year cost of an entitlement to the present year's Section 302 allocation is simply not a meaningful test. The cost of such a program can increase ten-fold in just a few years, especially if it is indexed, because there is no regular review, such as the annual scrutiny afforded by the appropriations process.

Let me be sure that this Committee understands exactly what these uncontrollables are doing to our budget. For fiscal year 1982, uncontrollable spending will comprise 78 percent of outlays, or an estimated $550 billion. This leaves the Congress with only 22 percent over which it can exert control through the budget process. Think of that—over three quarters of the budget cannot be affected through the annual budget process!

Furthermore, of the 22 percent of the budget which can be reached, 17 percent is in defense programs, leaving only 5 percent of the entire federal budget request for fiscal year 1982 characterized as controllable for non-defense programs. These are the programs which have built our highways and waterways; financed breakthroughs in agriculture, energy, and medical research; rejuvenated our cities; put men on the moon; and acquired and maintained our national parks. Few would label these programs "discretionary", as they contribute so much to our national identity and pride. Yet they are discretionary in budget terms, and thereby bear the brunt of budget-cutting efforts, as the uncontrollables are so difficult to reach. President Reagan's proposal to slice another 12 percent from these programs is only the latest example.

As a starting point, the Committee might reconsider the language originally adopted by the House in 1974. That bill contained a flat prohibition on the adoption of new spending authority, unless such spending authority is effective "only to such extent or in such amounts as are provided in appropriations Acts. . . ." For existing spending authority, the House bill provided that after four years, no employee of the United States could exercise that spending authority except "to the extent and in such amounts as are provided in appropriations Acts." This latter proviso, which would give Congress the time required to insure a smooth transition for these programs, is absolutely essential to control spending. For while Congress continues to enact entitlement programs, for example, new veterans benefits which were sent to the President last week, the great rise in uncontrollable spending is due to indexa-

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tion of existing programs. For example, no new benefits have been added to the social security system since Medicare in the late 1960s. But outlays have increased in that same period from $24.3 billion to $142.8 billion.

A more recent proposal to bring uncontrollables within the budget is S. 59, introduced this year by Senator Biden and referred to this Committee. This proposal is similar in thrust to the original House bill, but exempts social security.

Dealing with the problem of uncontrollable spending will be one of the thorniest this Committee will confront in attempting to solve the deficiencies in the Budget Act. We all know the sensitivity of many of these entitlement programs, such as social security. Yet an effective means must be found. To quote a statement from President Carter's budget submission for fiscal year 1982: ". . . we have reached the point where uncontrollable spending threatens the effectiveness of the budget as an instrument of discretionary national economic policy. It is extremely difficult to balance the budget, for example, when more than three quarters of all spending is determined by factors that are normally beyond the control of the President and Congress in any given year."

RECONCILIATION

Given the abysmal condition of our federal budget due to the growth of uncontrollable spending, it is not surprising that officials would seek extraordinary means to reduce spending. The extraordinary means utilized was reconciliation. One well-known scholar on the Budget Act termed reconciliation "a process that Rube Goldberg might recognize".

From a last gasp mechanism designed to bring spending within congressional ceilings just a week prior to the beginning of a new fiscal year, reconciliation has been converted to the preeminent device to establish budget levels years in advance. The whole thrust of the use of reconciliation this year is foreign to the concept as set forth in the Budget Act. While a natural evolution of our procedures under the Act is understandable and acceptable, I have very serious reservations, which I know to be shared by a number of my colleagues, about the radical departures adopted this year. Let me specify my concerns.

Binding spending levels

First, I believe Congress must preserve its flexibility to make budget decisions in light of the most recent economic conditions. Preserving this flexibility was one of the major considerations weighed in formulating the original Act. This was the core of the question of whether the first budget resolution should carry binding, or merely target figures. The Congress determined that it was too early to set binding figures on May 15—just 4½ months prior to the beginning of the new fiscal year. Binding levels were only to be established in the second concurrent resolution, adopted by September 15, or subsequent resolutions.

What has happened this year to this concern about setting binding levels too early in the process? In March, the Senate Budget Committee reported a third budget resolution for fiscal year 1981, which also included required spending reductions for fiscal year 1982, 1983, and 1984. Because these figures were contained in a third budget resolution, not a first resolution, they would be considered binding if agreed to by both houses. The fact that the 1982, 1983 and 19[illegible]gures were contained in a third resolution for 1981 was of no consequence! An[illegible]ongress wanted to change these binding fiscal year 1983 figures, for example, in the first concurrent resolution for 1983, it would be unable to do so. The figures in the first resolution would be advisory only, and the figures previously adopted would be controlling.

I suppose we should be thankful that the Senate was asked in 1981 only to approve binding figures through 1984, as the Presiding Officer in the Senate informed me that the Budget Committee could report figures for every year through the end of the century!

My recommendation would be to preclude the setting of any binding figures for any fiscal year prior to the second concurrent resolution for that year. Congress would still be able to set targets for the outyears if it so desired. But we would not be in the absurd situation of establishing binding figures for future years, and would thereby preserve the flexibility so important to the framers of the Budget Act.

Reduction of Authorizations

Another unprecedented step taken this year was the requirement that legislative committees reduce authorization levels. The Joint Explanatory Statement of the Committee on Conference on the Budget Act stated that the authorization of budget authority was beyond the reach of the Budget Committees. But because this lan-

guage applied only to a first concurrent resolution, and the resolution in question was technically the third budget resolution for fiscal year 1981, such action by the Budget Committee was permitted.

I might add that the House Budget Committee did not adopt this same approach. The concurrent resolution reported by that Committee direced legislative committees only to make reductions in the direct spending programs within their jurisdiction. The argument of that committee was that the actual spending level for authorized programs is set in the appropriation, rather than authorization act. However, the Gramm-Latta substitute offered on the House floor also contained authorization reductions, and with the acceptance of that substitute, the survival of instructions to reduce multi-year authorizations was assured. Incidentally, on the House floor, this instruction was termed "an astounding usurpation of the function of the legislative committees . . . and way beyond the authority of the Budget Act".

I stated my objection to this practice at the time, and I reiterate it now. This step was unnecessary, as the appropriations committees have their own Section 302 allocations which cover these same programs. The function of the appropriations committees has been to balance program needs, as determined by authorizing committees, with national spending priorities. For example, in fiscal year 1980, appropriations were only 57 percent of authorized levels, for those programs with specific authorized amounts.

I would like to quote Allen Schick, who has written extensively on the budget process, on the effect of this instruction to the legislative committees:

". . . In the division of legislative labor, Congress has a dual structure that enables it to respond to conflicting pressures to guard the Treasury and to finance government programs. The authorizing committees generally behave as advocates; their job is to assess the needs of programs within their jurisdiction, not to tend to the overall fiscal condition of the United States. The principal role of the Appropriation Committees is to guard against excess spending. . . . The extension of reconciliation to discretionary legislation has severely curtailed the advocacy role of many authorizing committees. They cannot recommend legislation in accord with their assessment of program needs but are limited to predetermined amounts. To make matters worse, these limits are for three years, and have been set below current appropriation levels. In other words, it it not a matter of moderating their advocacy, but of virtually ending it. . . ."

I believe this division of labor has served Congress well, yet it has been severely undermined with the instructions to reduce program authorizations. I recommend that the Budget Act be amended to prohibit the Budget Committees from directing legislative committees to reduce authorizations. The Budget Committees should continue, of course, to direct legislative committees to reduce direct spending programs. As these programs are outside the appropriations process, there is no other means in the budget process to reach them.

Extraneous legislation

Finally, with regard to reconciliation, some committees included legislation with no budgetary impact in their reconciliation packages. Initially, these non-germane matters were deleted in the Senate through a bipartisan leadership amendment. Subsequently, however, much of this same legislation was inserted through additional floor amendments, and survived conference.

The Majority Leader indicated on the floor of the Senate that under the Budget Act, as long as the preponderance of the subject matter of the reconciliation bill has a budgetary impact, the bill can contain nonbudgetary amendments to substantive law. This is clearly a dangerous situation. There is already inadequate time to study reconciliation proposals without adding extraneous matters. I recommend that the Budget Act be amended to prohibit legislation with no substantial budgetary impact from inclusion in reconciliation bills.

IMPOUNDMENT

Now, Mr. Chairman, let me conclude by presenting several suggestions for improvements to Title X of the Act, which sets forth our impoundment procedures. Under current law, the President may propose the deferral or rescission of budget authority. Deferrals remain effective unless either House of Congress adopts an impoundment resolution disapproving the proposed deferral. Rescissions are only effective if Congress completes action within 45 days of continuous session on a rescission bill approving in whole or in part the President's recommendation. I would recommend the following changes in these procedures.

First, 45 days of continuous session in a very clumsy measuring stick. It is impossible to determine much in advance when this period will expire, due to the unpre-

dictability of the congressional schedule. I believe this period should be changed to 60 calendar days. This would permit everyone, including Congress, pertinent agencies, and affected individuals to know exactly when the perioid for action ends.

Second, Congress should have the ability to take affirmative action to deny proposed rescissions, through passage of a rescission resolutuion. Under present law, 45 days of continuous session must pass before the proposal is actually rejected. This formula poses special problems at the end of the fiscal year. The President may propose the rescission of single-year funds too late in the year for Congress to defeat the plan. Congress needs the option of acting immediately, if it so desires.

Third, presently an impounded resolution rejecting a proposed deferral must be on an "all or nothing" basis— we cannot reject part of a deferral. Congess should be able to determine how much of a proposed deferral is justified, without a requirement to accept or reject the entire proposal. Congress may now reject part of a rescission.

In general, I judge that the impoundment provisions of the Budget Act have been successful. In FY 1981, for example, President Reagan recommended rescissions of $15.1 billion in budget authority, and the Congress approved $14.3 billion, or 95 percent, of this total. While former Presidents were not as successful in securing congressional approval of proposed rescissions. This does not indicate that the process is inadequate. Rather, former Presidents could not muster the political support for their proposals. For this reason, I oppose amendments to increase the power of the President to withhold appropriated funds from obligation, such as S. 384, which would empower the President to rescind funds unless Congress adopts a concurrent resolution disapproving it. The problem of rising expenditures is not attributable to the discretionary programs which are subject to rescissions. Restraining outlays can only be accomplished by attacking uncontrollable spending.

Chairman ROTH. Congressman Whitten, I want to welcome and thank you for your courtesy in coming to this side. I have long admired your work both as a Member of the House, but since I have come over to this side, I look forward to hearing your comments. I have read some of your earlier statements from when you testified before House committees. I might say before you start, Mr. Chairman, whatever reforms or changes need to be made I feel have to be agreed to by the two Houses and should have broad bipartisan support if they are going to work.

I look forward to your remarks.

TESTIMONY OF HON. JAMIE WHITTEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Representative WHITTEN. Thank you, Mr. Chairman. I appreciate the chance to appear before your committee. May I start off with a statement that may surprise you: Our key troubles are financial.

Chairman ROTH. I am sorry?

Representative WHITTEN. Our troubles are financial; they are not only related to process and procedures.

May I say that while amendments to the Budget Act are important there are some areas that need attention, but what we really need to do is to carry out the Budget Act as was originally intended.

As one person who promoted the Budget Act from the outset, I would like to say we made a study that showed on our Committee on Appropriations, for the past 37 out of 38 years had held below the budget recommendation.

Our study showed that the problem that developed was back door spending. Legislative proposals were bypassing the Appropriations Committee so the Budget Act was set up to deal with this. From the outset it was to be weighed by those who knew the sub-

ject, that is those on the Ways and Means and those on the Appropriations Committees.

Originally the Budget Act was set up for the purpose of holding in line the passage of legislation that tied our hands and made us spend the money. With that in mind the Joint Study Committee recommended that the original Budget Committee be made up of 7, 7, and 7, now you have 5 from Appropriations, 5 from Ways and Means and 20 from the legislative committees.

The other thing I would like to call attention to is the Budget Act. I shall not repeat what Mr. Billing had to say. You are familiar with his remarks and I want to compliment him and my friend Senator Hatfield, who made a very fine presentation. I shall not repeat some of the things he said. They are in my prepared remarks which I hope will be carried in the record.

Chairman ROTH. Without objection.

Representative WHITTEN. Well, what we have here is a case of asking for a rule on the House side waiving the requirements of the Budget Act.

The Budget Act calls for, first, setting up targets then after you pass the spending bills you can reconcile the targets with the expected income.

As evidence of what I am talking about, instead of acting under the requirements of the Budget Act as it is written and as it is intended, as Senator Hatfield and others have pointed out, all of the actions this year were directed toward putting our feet in concrete before we start with hearings. This is based on section 301 of the Budget Act, which states: "Any other procedure which is considered appropriate to carry out the purposes of this Act"

This year the First Budget Resolution set aside the intent of the act by using two lines to do what they please. But by doing what they please gets away from the orderly process.

I have found complete surprise on the part of many of my colleagues when I point out the workload of the Appropriations Committee. First, may I repeat again, our Committee on Appropriations supports the Budget Act. Thirty-seven out of 38 years we have been below the budget. We have cooperated with the President when he sent us a request to reduce fiscal year 1981 appropriations by $15.1 billion. We took the message and divided it among 13 subcommittees.

We came up with $14.3 billion in savings. We have tried to be cooperative, and I believe we have succeeded.

Thank you very much.

Chairman ROTH. Thank you, Mr. Whitten. You heard your colleague, Senator Hatfield, speak at great length about the problem of so-called uncontrollables. Do you feel that it would be valuable to try to make all entitlements and other programs subject to the appropriation process? Is that a major step?

Representative WHITTEN. I would have to agree, we need to get this back door spending under control. Actually we haven't had all that much actual reduction. You have just transferred it from domestic programs over to military spending.

Can you imagine determining your military strength by the amount of money you spend? I had an investigation started in February. When you see it you are going to see they wasted enough to

take care of actual defense needs. With practices like no competitive bidding, the Trident submarine is several years behind. In that case, they set up an insurance policy guaranteeing them against faulty management and faulty work. You know who they sent the bill to for that insurance policy? The Government. They wouldn't do it that way if they didn't have more than enough money. If your money is tight, you look after it. So what we are cutting here in domestic programs we are putting over here in defense spending.

Chairman ROTH. Let me underscore what you said about defense. I think it is extraordinarily important that we subject the Defense Department to the same scrutiny we do other areas. I am concerned there seems to be a tendency as we increase spending we should exempt it from any scrutiny.

As I mentioned to Senator Hatfield, this committee will be conducting hearings later in this month on its procurement practices. I have to say I share very much your concern of the downgrading of procurement.

Representative WHITTEN. I won't take up your time with it, but my experience with Defense goes back. Some years ago I had an investigation of procurement policies and practices. Practices is what they do and it is unbelievable what waste we found.

Secretary Wilson actually defended his people. I was reading from the investigative report. He was defending them. I said, "General, will you read this over the weekend?" He came back on Monday and said to the committee, "It makes me sad and mad to realize I am running such a department."

Mr. Chairman, we have evidence. We started this hearing in February. It is terrible and anybody who will read the findings of the staff of the Appropriations investigative staff will see we don't have the manpower we think we do, we don't have the capacity we think we do, and we have been wasting billions of dollars annually and we have it in black and white on this investigation.

It has not been released. We have them and are ready to start hearings on them. Again, let's realize we are talking about money. If we don't watch we will be letting our country go down the drain and then you can't come back.

Thank you.

Chairman ROTH. Thank you, Mr. Whitten.

Representative WHITTEN. May I apologize for wandering afield but I have submitted a detailed statement—very similar to Senator Hatfield's.

Chairman ROTH. If we have further questions, I will call you.

Thank you very much.

[The prepared statement of Congressman Whitten follows:]

STATEMENT OF THE

HONORABLE JAMIE L. WHITTEN, CHAIRMAN
HOUSE APPROPRIATIONS COMMITTEE

to the

COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

October 6, 1981

I welcome this opportunity to discuss with you the Congressional budget process. First, may I say that I am not opposed to the Budget Act and I do not agree it has been proved a failure. I do say it has not been tried. What we have been operating under is a Budget Resolution which waived the requirements of the Budget Act. That is where our trouble began.

I have been a staunch supporter of the Congressional Budget Act over the years. I was the senior Co-chairman of the Joint Study Committee on Budget Control which was the study group that made the initial recommendations to the House Rules Committee which led to the drafting of the Congressional Budget Act. I was the ranking member on the first Budget Committee and I have supported the various budget resolutions down through the years. I am dedicated to maintaining an orderly budget process and I believe such a process is needed to maintain budget control. What we need to do is work under the Budget Act -- which is all together different. Of course, I add, if we don't reduce interest rates, it all will fail. It will take more than mere savings for this to work for we need more production, which puts money to work. Right now under our current interest rate situation no one can afford the cost of money.

RECORD OF THE APPROPRIATIONS PROCESS

My record on budget control is clear and as my colleagues know, the record of the Appropriations Committee, of which I have the privilege of chairing, is also clear. Thirty-seven of the past thirty-eight years we have been under the budget request. With regard to fiscal year 1982 appropriations, the House Appropriations Committee has once again acted responsibly. So far, reflecting twelve of the thirteen bills that have either passed the House or been reported by our Committee we are under the March 10, 1981 budget request by $3 billion. We have acted responsibly by first reducing the spending levels requested; and second, by exercising the Congressional prerogative of re-ordering national priorities.

CONGRESS -- THE PEOPLE'S BRANCH OF GOVERNMENT

I am proud of the fact that the Congress is the People's Branch of Government. The recommendations made by the Appropriations Committee are based on extensive hearings and review. Markups are conducted on a line-item basis. During the 96th Congress, the Appropriations Committee, through its established subcommittee structure, held over 720 days of hearings, taking testimony from 10,215 witnesses that was recorded in 225 volumes of hearings comprising some 202,767 printed pages. Furthermore, the Committee conducts hundreds of studies of various federal programs and activities. For instance, during the last Congress, the Investigative Staff of the Committee alone worked on over 140 studies concerning the operations and programs of the various departments and agencies of the Government.

We have followed this same time-tested procedure again this year. Drafting appropriation bills is not an exact science, but it is based on the sound underpinnings of hearings, studies, and other review. And we do the best we can to reach a concensus that is satisfactory to the majority on both sides of the aisle.

CONGRESSIONAL RESPONSE TO THE PRESIDENT'S ECONOMIC RECOVERY PROGRAM

The first nine months of 1981 were truly unprecedented in the annals of budgeting. We saw the President use the process of budgeting, appropriating, and legislating to implement his desires. Those of us in Congress pledged early to give his recommendations a fair hearing and early action. Less than 12 weeks after the President submitted his March 10 package of budget restraint the Appropriations Committees of the House and Senate sent to the President a bill embracing the largest amount of rescission actions in history. This action caused a minimum of dislocations because each sub-committee which knew the subject recommended the cuts. The Conference Agreement that was hammered out between the two bodies embraced $14.3 billion of the $15.1 billion in cuts sought by the President. It is true that we did not agree on each and every of the 500 items in the package, but I must point out that we approved a package embracing 94% of the reductions requested by the President. In addition, the Committee also reduced program increases sought by the President by some $1.6 billion. I don't believe the Congressional response to the call for Economic Recovery has ever been surpassed in our history.

Now we are asked not only to cut an additional 12 percent, but to commit ourselves to much more than that, for we are asked to increase military spending which is far different from National defense. Our Committee has evidence before it of tremendous waste in existing military programs.

LET'S RETURN TO THE BUDGET ACT

Back, however, to the prime purpose of your hearing. Here I would like to call attention to the reconciliation process that has been imposed by the Congress itself this year through the budget resolution,

a process which is itself contrary to the intent of the Congressional Budget Act. Along with other members of the Appropriations Committee and others, I believe we should fix targets, work toward them, then reconcile differences. This we have not done this year.

The reconciliation process seems to have been diverted to purposes for which it was never intended. Section 310 of the Congressional Budget Act of 1974 (P.L. 93-344) specifically places the order of reconciliation after the adoption of the second budget resolution and provides for completion of the process by September 25. The Budget Committee's justification for considering reconciliation at this stage of the budget process is based on the following two lines appearing in section 301 of the Act concerning matters which may appear in the first budget resolution:

> "any other procedure which is considered appropriate to carry out the purposes of this Act."

Thomas Jefferson stated in an opinion on the constitutionality of the national bank that:

> "It is an established rule of construction, where a phrase will bear either of two meanings, to give it that which will allow some meaning to the other parts of the instrument, and not that which will render all the others useless."

I contend that two lines of the Congressional Budget Act should not be used to circumvent the true intent of the Act which was to place the reconciliation process at the end of the budget cycle and not at the beginning as it has now been done.

I also quote from Statutes and Statutory Construction, Vol. 2A:

> "Section 45.12 Reasonable Interpretation.
>
> It has been called a golden rule of statutory interpretation that unreasonableness of the result produced by one among alternative possible interpretations of a statute is reason for rejecting that interpretation in favor of another which would produce a reasonable result. It is said to be a "well established principle of statutory interpretation that the law favors rational and sensible construction."

It is neither sensible nor rational to rely on the language in section 301 of the Budget Act to arbitrarily propel reconciliation to the beginning of the process from the end. It defeats the clear intent of the Act. In my judgement, it jeopardizes the viability of the Act as a useful Congressional tool.

Throughout the debate on the Congressional Budget and Impoundment Control Act, Congressman Richard Bolling, the floor manager, stated that the first budget resolution would "establish guidelines" and "contain spending targets" and after legislative and "spending measures have been acted upon, it would (then) be appropriate for Congress to set firm spending levels." There is ample documentation showing that there was never any intention to place spending constraints or limits on Congress until the adoption of the second budget resoultion. I fear the current reconciliation measure destroys this concept.

The premature reconciliation procedure this year also carries serious institutional implications. I submit the appearance of the reconciliation bill in the budget resolution this spring has almost completely stifled the legislative process. Consider what little substantive legislation has been before either House this year. Where is the usual avalanche of authorizing legislation that was supposed to be in place before the appropriation bills were brought forward? I do not know precisely what the figures are but I suspect that so far this year the Rules Committee has not been asked for the number of rules that have been received at a comparable date in other years since the Budget Act was passed. Certainly, the floor activity has been sparse. The reconciliation bill has inhibited the entire legislative process and an omnibus package has been created to dramatically change the direction of government almost overnight.

This extraordinary reconciliation bill has been assembled with very few individuals understanding its overall content and with little or no public hearings or review as is alluded to in a letter to the Rules Committee advocating a closed rule. While advocating a closed rule, the letter contains this revealing statement:

> "In many instances, this (reconciliation) procedure meant severe limitations on the time available for consideration of major legislative proposals and, in virtually every case, allowed no time for public hearings or review."

The House of Representatives is the people's Branch of Government and the purpose of the Congressional committee system is to conduct public hearings and review in detail legislative proposals to determine their effect. But this procedure has been circumvented in this instance. The Appropriations Committee has prided itself in carrying forward this very detailed review of the matters under our jurisdiction and we intend to continue this method of approach.

Reconciliation sets a very dangerous precedent for the legislative committees to be required to set aside the public review process in very complex issues. The Congress rushed through a bill that affected programs for two and three years down the road without even an opportunity to fully understand its effects. On top of that, Congress was asked, in the interest of expedience, to forfeit our responsibility as representatives of the people and approve it without amendment. How far we have come from the intent of the Budget Act. As a senior member of this House I cannot justify or condone such a procedure that is basically contrary to the established and accepted principles of this institution.

As you know, full hearings and careful thought by both the Study Committee and by the Rules Committee resulted in the sound conclusion that the first resolution on the budget be confined to targets as opposed

to firm ceilings. Those studies and the action of the Rules Committee also brought about the feature of the budget process timetable which calls for reconciliation after the regular authorization and appropriation cycle conducted within the established committee structure and after the completion of the second concurrent resolution on the budget.

EARLY AUTHORIZATION NEEDED

The authorization problem is chronic and shows absolutely no sign of improving on its own. These provisions of the Budget Act have been tested and they are not adequate. Legislative timeliness is essential to Congressional budget control. If a device is not found to secure authorizations in a more timely manner in such sensitive areas as national defense, international affairs, health, education, science, energy and others, the legislative budget process will become inoperative and the Congress will have forfeited a rare opportunity to implement effectively its will in setting national priorities and achieving legislative budget control.

Several alternatives are available which would rectify the problem or improve the situation. Let me call attention to section 402(a) of the present law. It reads as follows:

Reporting of Authorizing Legislation

> Sec. 402. (a) Required Reporting Date. -- Except as otherwise provided in this section, it shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which, directly or indirectly, authorizes the enactment of new budget authority for a fiscal year unless that bill or resolution is reported in the House or the Senate, as the case may be, on or before May 15 preceding the beginning of such fiscal year.

Four specific proposals come to mind which you may wish to consider:

First, this section could be replaced with language embracing the original recommendation of the Joint Study Committee on Budget Control to which I referred earlier. The proposal was that authorizations take effect no earlier than the fiscal year after the fiscal year in which they are enacted. Under that proposal, authorizations for the applicable fiscal year would be enacted before the President's budget is submitted. This approach was recommended by the Joint Committee after very careful study. From the standpoint of the Congress, it would accomplish two valuable objectives. It would solve the problem of late authorizations and allow the Congress to consider appropriation bills based on enacted authorizing legislation. It would also afford the Executive an opportunity to cast an annual budget in accordance with Congressional intention as reflected in the authorizing bills. If the Congress is serious about taking the lead in setting national priorities, it would seem this approach would be most attractive. Enactment of authorization prior to submission of the budget would accomplish maximum Congressional impact on the budget, permit timely consideration of appropriation bills and would reduce the extensive use of continuing resolutions, which further tends to diminish the influence of Congress on policy.

Second deals with a proposal, where multi-year authorizations could be required with the provision that such authorizations be renewed a year before the expiration date. There are a number of programs, especially some in the education field, that traditionally have been authorized on a multi-year basis. Many people who have studied the authorization problem believe the answer is multi-year authorizations.

Third, and referring again to section 402(a) of the Budget Act, the requirement for reporting authorizing legislation by May 15 could be altered to require the enactment of authorizing legislation by May 15.

This would leave to the authorizing committees of the House and Senate the responsibility for planning and executing schedules for reporting bills, securing floor time, and scheduling conferences so that the May 15 date might be achieved.

A fourth alternative, but in my view one not fully satisfactory, would be to adopt the March 15 reporting date for authorizing legislation as recommended by the Rules Committee originally and agreed to by the House in its version of the Budget Act.

Clearly, the first two alternatives are the most desirable and would tend to bring some order to overall legislative budget control.

Whatever solution that may be agreed to should also include a revision of the House Rules -- perhaps Clause II of Rule XXI -- which would disallow points or order against funds in appropriation bills after June 1 if renewed authorization is not enacted by that date. In other words, points of order would not lie against items in appropriations bills after June 1 because authorizations had not been enacted. This waiver could be written so that it would not apply to new programs.

EXAMINE THE LEGISLATIVE HISTORY

I commend the hearings which your Committee is conducting in this vital area. We must constantly renew ourselves, but we should not forget our past. Possibly our solution lies in returning to five fundamental guidelines proposed by Chairman Richard Bolling on December 4, 1973 when he managed the Budget Control bill on the House floor:

First has been the commitment to find a workable process. Not everything that carries the label of a legislative budget can be made to work. The complicated floor procedures contained in the Joint Study Committee bill have been eliminated because they would have inhibited the proper functioning of Congress.

Second, budget reform must not become an instrument for preventing Congress from expressing its will on spending policy. The original bill would have ruled out many floor amendments, it would have stunted the free consideration of appropriation measures, it would have bound Congress to unusual and oppressive rules, and it would have given one-third of the Members the power to thwart a majority's effort to revise or waive such rules. Points of order could have been raised at many stages of the process and legitimate legislative initiatives would have been blocked.

The objective of budget reform should be to make Congress informed about and responsible for its budget actions, not to take away its power to act.

Third, budget reform must not be used to concentrate the spending power in a few hands. All Members must have ample opportunity to express their views and to vote on budget matters. While it is necessary to establish new budget committees, they must not be given extraordinary power in the making of budget policies.

Fourth, the congressional budget must operate in tandem with and not override the well-established appropriations process. Through its power of appropriations, Congress is able to maintain control over spending. That power has been exercised responsibly and effectively over the years and it should not be diluted by the imposition of a new layer of procedures.

Fifth, the budget control procedures should deviate only the necessary minimum from the procedures used for the preparation and consideration of other legislation. Undue complexity could only mean the discrediting of any new reform drive. We must not load the congressional budget process with needless and questionable details.

CONCLUSION

I have made reference to some of the major and most immediate problems we see with respect to the present Budget and Legislative process. There are others which will surface and I hope there will be opportunity to address these. However, if we act first, and hold hearings afterward, if at all, I feel we are following a dangerous course from which there may be no return. Therefore, in order to help restore some integrity to the intent of the Budget Act, I offer two suggestions:

First, I recommend that we return reconciliation to its proper sequential positions in the Congressional budget process -- late in September after the enactment of the Second Concurrent Resolution on the Budget as clearly called for in the law.

Second, in order to preclude the recurrence of premature reconciliation, and just as importantly to preclude the imposition of other procedures not specifically intended by the Congressional Budget Act, I recommend that Section 301(b)(2) of Public Law 93-344 be subjected to proper interpretation or repealed. This is the seedbed of the problem confronting us now -- that language which has been used to circumvent and defeat the original purpose of the Act. It is the permissive language appended to the content of the first budget resolution which reads as follows:

> "Any other procedure which is considered appropriate to carry out purposes of this act."

If this section can be used as it has to reverse reconcilation, it can and will be used for other purposes not intended by the Act. If it can be demonstrated that refinements to the Act are desirable, let them be justified to and specifically authorized in law by the Committee's which have the legislative jurisdiction over the Budget Act.

These are but a few recommendations which I believe will develop a more effective and more workable process. This does not require a massive overhaul of the existing system -- indeed, I feel that would be a big mistake. What we need now is just some fine-tuning to eliminate some of the problems we've discovered.

It has been my experience that hard fiscal decisions are a matter of will as much as procedure. Adequate procedures are necessary but it seems that today restraint and fiscal discipline are no longer self-evident virtures. It seems that we as a society tend to want more spending for almost every conceivable purpose, but we do not have the conviction and hence the willingness to raise the revenue to pay the bills. The

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heavy federal borrowing which has resulted has contributed significantly to persistent inflation, dangerous and humiliating devaluation of the dollar, and ominous and chronic trade deficits.

In the perspective of the fiscal history of the Federal Government, the Budget Act has but a brief and frail history. In my judgement, it would represent a great disservice to this institution and to the nation if this otherwise sound device for fiscal control were allowed to flounder and fail through abuse.

I am very grateful for the opportunity to have presented my views on ways of improving Congressional budget control. This is a most important issue -- our economy, our place in the community of nations, and indeed our credibility as an institution all hang in the balance.

THANK YOU.

Chairman ROTH. The committee is in recess.

[Thereupon, at 2:40 p.m., the committee adjourned to the call of the Chair.]

REVIEW OF THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

THURSDAY, OCTOBER 29, 1981

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, D.C.

The committee met at 10:08 a.m., in room 3302, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Present: Senators Roth, Percy, Stevens, and Mattingly.

OPENING STATEMENT OF SENATOR ROTH

Chairman ROTH. The committee will be in order.

I have an opening statement, without objection from any other member of the panel, I will include it in the record.

[The statement follows:]

Today the committee resumes its oversight hearings on the Congressional Budget and Impoundment Control Act of 1974. Oversight of the Budget Act is without question one of the most fundamental and profound duties of this committee. In effect, the Budget Act ties together several policymaking processes within the Congress, including the budget and fiscal policymaking process, the appropriations process, the revenue raising process, and the authorization process. We must assure that the Government of this Nation is able to act swiftly and decisively to respond to major national and international problems and crises while preserving the rights and political institutions of the people. Processes of the Congress which most directly govern the Nation—the processes which permit us to tax and spend—must be finally honed and constantly scrutinized.

Today we will hear from several distinguished Members of Congress and the Congressional Budget Office. I expect that today we will discuss several problems which have been associated with the congressional budget process. One of these problems is the lack of time each year for Congress to develop, debate, and implement changes in fiscal policy as well as specific programs. There is a delicate balance between the need to act quickly and the need for careful study of legislative policy. There are several interesting approaches to this workload problem which I would like to begin to examine today.

I also want to discuss some long-term strategy today to begin to bring our Federal budget including entitlement programs under control. We need to explore ways to fairly promote this control through the budget process of the Congress.

Chairman ROTH. I want to welcome our distinguished colleague and friend, Senator Long, who will be our first witness. We welcome you to come forward, Senator Long, if you would.

Senator LONG. Thank you.

Chairman ROTH. I would just like to make, if I may, two or three comments in preparation for your statement, Senator Long.

As you know, this is the 2d day of hearings that we have held on the budget process. I think, generally speaking, there is satisfaction that the budgetary process is working. It has forced the Congress to

be concerned with fiscal policy, and it has forced Congress to be concerned with macroeconomics. Most people I have talked to and those who have appeared before this committee have testified that what we did 7 years ago has been a major step forward.

At the same time, I think there is a growing concern that, like all changes, it has created some problems. It has created problems because, in a way we are going over the same ground too many times; we are making too many decisions. Consequently, in my judgment, Congress is getting bogged down with a lot of detail and never moving forward definitively.

I personally believe, and I think a growing number of people are coming to this conclusion, that we should move to a 2-year cycle. We have two congressional resolutions, a series of appropriations and authorizations, supplementals, you name it, and we are so busy, as I say, going over the same ground that nobody really knows where we are. It is confusing to the people back home and, frankly, it is confusing to those of us in the Senate.

So one of the things I am going to be interested in is whether we can move to some kind of a 2-year cycle, where the congressional budget provides for 2 years. I must say, in my own mind I question whether we need a second budget resolution when we have the appropriations process. Perhaps the appropriations process could be a substitute for the second budget resolution. I question whether we need to have annual authorizations or appropriations, but rather we could make those 2 years instead.

One of the advantages of doing this, Senator Long, it seems to me—and I will be interested in any observations you may have—is that if we concerned ourselves with budgetary matters 1 year, perhaps we could do a better job on oversight the 2d year. We would have more time to consider basic policies with respect to authorization.

But in any event, I welcome you as one of the preeminent authorities on the Senate and how we operate. I would ask you to proceed.

TESTIMONY OF HON. RUSSELL LONG, U.S. SENATOR FROM THE STATE OF LOUISIANA

Senator LONG. Thank you very much, Mr. Chairman.

As you know, it has always been my thought, and we have worked together on this type of thing in the Finance Committee, that we ought to try out some new ideas. If they don't work, get rid of them. But sometimes you never know unless you try them.

I would certainly commend to you we should experiment with some things to see how well they work. If they don't work, perhaps we ought to have an easy way to dump them. But if they do work, we should of course keep the changes.

Let me talk about the suggestions I want to make here today.

Since the enactment of this Budget Act, the Senate for the most part has been able to accommodate itself to the major procedural changes required by the adoption of the process. It was inevitable, however, that a change of that magnitude would have some unforeseen results which do not advance the true purposes of that Budget Act.

In the last Congress, I introduced four proposed amendments which I believe will improve the ability of the Senate and the committees to carry out their legislative responsibilities in a manner totally consistent with the goals and objectives of the Budget Act. These amendments, which are procedural in nature, represent some of the most significant needed improvements which I have identified during the 7 years that the Budget Act has been in effect. I believe the adoption of these amendments will do no harm and will enhance the effectiveness of the bill.

Here is the first one. Let me just talk in terms of problems, examples, and answers. Problem: Certain revenue and expenditure items are typically considered in the same legislation. Such legislation may be designed, for example, in the Finance Committee. I think that is where the problem is most acute. And it can be designed to stay within the overall budgetary goals concerning the budget surplus or deficit; yet it can run afoul of the budget process because the Budget Act treats revenue and expenditure items separately.

Example: After the second budget resolution, spending committees may have enacted legislation fully using the expenditure limits. Revenue increases totaling $3 billion may be needed to meet the revenue floor. The Finance Committee—and as you know, Mr. Chairman, about half the problems in complying with the Budget Act are in the Finance Committee and its legislation—the Finance Committee may wish to report out a bill which raises $7 billion in revenues offset by $2 billion in tax relief to low-income persons. If part of this relief affects the earned-income tax credit, however, the committee bill would be subject to a point of order since that provision's refundable aspects are treated as expenditure items. This would be true even though the bill as a whole provides a net of $2 billion in budgetary surplus over and above what the budget requires.

Proposed solution: Provide that legislation including both expenditure and revenue items will be considered on the basis of its net—mind you, net—budgetary impact for purposes of applying the various requirements of the Budget Act; that is, on the basis of its impact on the overall surplus or deficit.

This change would be consistent with the practice of the Senate of using the budget process to set budgetary objectives and not to prejudge the details of the legislation which will achieve those objectives.

For example, early in the history of the budget process a question arose as to whether the revenue targets in a budget resolution bound the Senate to particular types of revenue changes which the Budget Committee had assumed in proposing those targets. The judgment of the Senate was that the budget resolution was binding as to the end result, but the Senate and its committees retained full flexibility to determine through the ordinary legislative processes the particular types of revenue changes that it wished to use to achieve that result.

In a similar vein, the chairmen of the Budget Committees have on many occasions defended the proposition that the budget process deals with budgetary objectives and not with line item details of how the Congress will achieve those objectives.

The amendment I am proposing is consistent with the long-standing approach of the Senate to the budget process. It will allow the Finance and the Ways and Means Committees, and the Congress as a whole, additional flexibility to shape legislation involving revenues and expenditures. This flexibility, however, would not in any way undermine the budget process since the overall budgetary situation would still have to fit with the objectives set forth in the budget resolution.

Here is another problem I would like to discuss: Under present procedures, the impact of a budget resolution on the legislative process is subject to major revision through the adoption of new economic assumptions by the Congressional Budget Office without an opportunity for Congress to review the changes and their impact on pending legislation.

Example: At the time Congress adopts a budget resolution, it sets the budgetary totals at levels designed to allow for certain legislative actions. The House and Senate then pass bills designed to fit within the budget resolution allowances. While that legislation is in conference, the Congressional Budget Office then proceeds to adopt a reestimate based on its economists' reassessment of the economic climate. This greatly increases the cost of present law programs, thus eliminating the room for the new legislation being considered by the conferees. Since this is purely an administrative action taken by the Congressional Budget Office, the force and meaning of the budget resolution previously adopted by the Congress has been significantly changed without any congressional opportunity to review the change.

Here is the proposed solution: Provide that basic economic assumptions are to be incorporated into each budget resolution and are to remain in force for estimating purposes until that resolution is modified or until Congress adopts, through a simplified, expedited process, a resolution approving a change in the assumptions.

Mr. Chairman, and Senator Stevens, there are other amendments more technical in nature than I have described in my full statement. I have attached amendments to carry out these objectives, if the committee agrees to it.[1]

Chairman ROTH. Thank you, Senator Long.

Let me ask you a question on your first proposal, you have proposed that so long as you stay within the net budgetary requirements, that you would meet the goal of the budgetary process. It seems to me, if I understand you correctly, that under your proposal we would be essentially concerned only with deficits or balancing the budget, but not necessarily with the overall level of Government expenditure, or revenues. In other words, under your proposal, would there be any limit on individual committees? For example, let's look at an extreme, case, with the Finance Committee, because this committee is the only one that can raise revenues in the Senate. Would it be able to increase taxes $100 billion and spend an additional $100 billion? Let's assume we had agreed on a $700 billion budget in our budget resolution. Could the Finance Committee increase that budget to $800 billion if it raised revenue $100 billion and expenditures within its jurisdiction $100 billion?

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[1] See p. 104.

Senator LONG. Let's just assume that in the context of the example I gave, suppose you had a deficit of $50 billion and the Finance Committee came out with a revenue measure that would raise $50 billion and spend $25 billion of it. Now, if you pass the bill, you would be much better off, as far as moving toward a balanced budget, than you were before. Sure, you would spend more money, but nothing would be done to prejudice the balance of that budget. You would be better off rather than worse off than you were before.

Now, that is a decision for Congress to make. Does Congress want to do it? But if they want to, it will not create a budget problem. The budget problem occurs when we do not pay for what we want to do. You and I know how tough it is to pass a $50 billion tax increase. But, at the same time, it can't pass unless a majority of the Senate votes for it. If we provide what it takes to pay for it, we shouldn't be prevented from doing something on the expenditure side, if that is what the Senate wants to do. Otherwise, the budget process is used to impede the Senate from doing what the Senate and the Congress might want to do, even though the majority on both sides wants to do that.

Now, it seems to me the whole idea of the budget process is to see that when you make changes, particularly changes involving expenditures, that you don't create a big deficit or increase the deficit. But where you are paying for everything you want to do, I do not think that the budget process was ever intended to be an obstacle to that. I don't think it should.

I gave you the example, and I believe that is an example that as a matter of fact could happen, where we report out an increase in the earned-income credit, as part of a bill which gives you a budget surplus as far as that bill as a whole was concerned.

Chairman ROTH. The only point that I was making is that under your proposal, there might be some who feel that Congress, through its budgetary process, ought to set the limits of a congressional budget. If they want to keep it within, say, $700 billion, that no committee should go beyond that.

You are very right, that it could do so. Even though the Finance Committee recommended it, it would still have to be approved by both the Senate and the House.

Senator LONG. It just seems to me, Mr. Chairman, that if you want to do certain things that affect expenditures as well as tax cuts, a great deal of that falls in the jurisdiction of the Finance Committee.

Chairman ROTH. That is correct.

Senator LONG. You are very familiar with it. Now in all of those areas, you know—and, I am not seeking to reflect on any other committee in the Senate—but generally speaking, the Finance Committee tends to be the most responsible committee in the Senate.

Chairman ROTH. That is because of the wise leadership it has and always had.

Senator LONG. Well, there are a number of reasons. But one of them is psychological. People who have to raise the money to pay for Government spending are very concerned about wasteful spending. You know, if our committee is going to bring in a tax bill to

pay for it, we are much more reluctant to vote for a spending item than somebody who doesn't have that burden. So when we report out a bill that very responsibly takes care of a problem, a national problem, that does cost money, and we raise the money to pay for it, that is a good package, that is the kind of thing that never has created budget problems, that helps you with your budget, you solve a problem and you pay for it all in the same bill. It is too bad the appropriations bills don't do that. But if there is a bill that is raising revenue to more than pay for what is being done, we should not prevent it from being packaged together.

You know, Mr. Chairman, that many times in the past when we passed social security bills we got the tax increase just because those folks wanted to vote for social security benefits had to vote for the tax increase also. That is how we got them to vote for the measure to pay for the benefits.

I am saying that where we bring a bill to you that is on balance a contribution to responsible, fiscally solvent Government, we should not be precluded from passing that bill because we have some goodies in there as well as the discipline to pay for it.

Chairman ROTH. You mentioned the line item details. Do you think that the budget resolution goes into too much detail with respect to either spending or revenue? In other words, do you feel that greater flexibility is desirable from this standpoint: as long as the Finance Committee, for example, raises the total amount of revenue, should the Budget Committee get involved with the problem of how that revenue is raised?

Senator LONG. I don't think so, Mr. Chairman. You may recall some years ago—it has been a few years back, but you were here at the time and I think you were part of it; it happened at the time when Senator Muskie was chairman of the Budget Committee—where we were instructed to cut revenues by a certain amount. Mr. Muskie took the attitude that we should have cut revenues more and made up the difference through tax increases in the way he thought they should have been raised. We fought it out on the Senate floor. The Senate agreed with the Finance Committee, that we met the target, the revenue figure was provided for. He didn't like the way we did it. If he wanted to, he could offer an amendment.

But that wasn't a budgetary problem. You may recall at that particular time we had a knockdown, dragout because I contended that he was trying to bind us by the language of the Budget Committee's committee report. There is no way we could even amend the committee report. The committee report is what is in the mind of somebody.

Chairman ROTH. Currently, do you think the budget resolution has the right amount of detail, or do you have any recommendation?

Senator LONG. Well, Mr. Chairman, I don't think that under the budget resolution the Budget Committee can or should try to bind legislative committees with legislative recommendations, other than requiring that a committee comply with a certain total; that is, they should not spend more than a certain amount of money. Or, in other words, if we report out a bill that raises the amount of money that the Budget Committee and the Congress allowed, or if

we report a bill that loosens the limits the budget resolution sets forth, I think it is highly improper for the Budget Committee to try to tell legislative committees what that legislation should be.

Suppose, let's say, we must raise $10 billion for the budget, so we then report a bill to raise the $10 billion. Then for the chairman of the Budget Committee or anybody else to stand there and say, "Wait a minute, you should have done this by cutting tax expenditures rather than by levying a new tax,"—that is highly improper. It seems to me in a case like that we have complied with raising the money they asked for.

Our legislation is subject to amendment, you understand. Where we have complied with the budgetary objective, I don't think that one committee ought to try to tell the other one, particularly if the second committee has more expertise in the field, I don't think that the first committee should try to tell the other one in detail what the legislation should be, other than to set the budgetary requirements, that you have to raise *x* number of dollars.

Chairman ROTH. My time is up. I have one or two more questions. Senator Stevens.

Senator STEVENS. Senator, what you are really saying, though, and I appreciate your suggestions—I think the committee will probably look with favor on them—but doesn't it give the Finance Committee an advantage that no other committee would have? No other committee could report back raising revenue if they wanted to have the bill at the same time. Only the Finance Committee could do that.

Senator LONG. Senator, as a practical matter, about half of the jurisdiction, in terms of funding of the legislation that will come within a budget resolution, has to come through the Finance Committee, for the simple reason the Finance Committee has the responsibility for raising all of the money, 100 percent. It has the responsibility over spending about half.

Mind you, the Finance Committee spending actions, as you know, are not a year-to-year thing. For example in social security, we will pass a bill from time to time to make some changes in the program, but the Finance Committee does not pass a social security bill every year just to continue what we are doing, as the Appropriations Committee does. So about half of what you are going to have in a budget resolution relates to the Finance Committee.

Now, that is the committee that has the potential both to create a certain amount of spending and to pay for it. Even before you had a Budget Committee, that committee had to think a great deal about the burden of paying for these programs. All of these trust fund programs, up until the budget process, were financed by more than the revenue that was being paid out. Most of them had a surplus in there.

Senator STEVENS. Those were creatures of the Finance Committee that created back-door financing that set us up in the uncontrollable areas. I am on the Appropriations Committee. We are coming rapidly to the conclusion that there is no more need for the Appropriations Committee because the budget does set details, tells us how many F-18's, whether we have a B-1, whether we have an MX. The whole thing is already laid out in the budget details. By the time the Appropriations Committee gets to it, we listen to

hours and hours and hours of testimony, but the decision has already been made by the Congress.

What you are saying is the Finance Committee should have a way out of the straightjacket that the budget process has put us all into. That is, if you want to go into some new mechanism, as long as you raise some money to do it, you pay for it. I admit, that is a nice solution for the Finance Committee. It would be no solution at all for the Appropriations Committee. There is no way we could report out a bill to raise money if we found there was a need for additional money in terms of the appropriations process and result in balancing the budget. But you could because of your jurisdiction.

Senator LONG. Senator, from the day the Finance Committee was created, it had the ability to report a measure that both raised money and involved expenditures. It was always that way. It did not create a budgetary problem. In fact, for a great number of years, you had a surplus in the social security fund. Frankly, it won't be long before we do it again.

Now, that is not what created your budgetary problem. That is not what is responsible for the budget process.

Now, the Finance Committee might want to report out a bill that has some good features—take the example I gave where we want to increase the earned-income credit for low-income people. We want to pay for it, or more than pay for it; we want to give the budget a surplus on that piece of legislation. The budget process was never intended to prevent that from happening, never. It has been going on since the beginning of time. The Finance Committee could report out a bill which is going to cost money, like social security, but we put the tax on to pay for it. For a great number of years a surplus was building up in the fund, and we should go back to increasing the surplus.

Now, I would submit that there never was anything wrong with the way we were legislating. There was no occasion for the Budget Committee to be concerned where the committee reports out a bill that meets a national problem, and it provides a way of paying for it.

Senator STEVENS. That is because of the functional limitation of the Budget Act, the Appropriations Committee has no such ability to react to the changes in society that take place after the budget resolution passes. If we find that there is an emergency in the national parks, we can't increase the money that goes into that function and take it from another function, without a change in the budget resolution, but you could if you had that concept. As a matter of fact, you could create through back-door financing a new trust fund that would never come to the Appropriations Committee at all and set up by virtue of a program which would be a totally uncontrollable entitlement program, another area which is not controllable. We deal with 17 percent of the budget in the Appropriations Committee and yet we have had to take three times now the brunt of the cuts. You talk about the cuts you have taken, but they have only come in the controllable areas. They have not come in the uncontrollable areas. I have yet to see any real change in the uncontrollable areas in the Budget Act. I think that these things would make some sense.

Senator LONG. Senator, if I had had my way, when I came to the U.S. Senate, I would have gone on the Appropriations Committee. I would never have been on the Finance Committee. I envy you your assignment. I went to the Finance Committee because my colleague was on the Appropriations Committee. There was a tradition that you can't have two Senators from the same party and the same State on that committee. I am sure you are familiar with that restriction. So I envy you that you serve on that Appropriations Committee.

Now, there are advantages to being on the Finance Committee and there are disadvantages to being on the Finance Committee.

Senator STEVENS. Let me tell you, the envy is so much that the new Appropriations Committee is composed now almost 60 percent of brand new Senators, and all of their predecessors had a chance to take that assignment, my friend. The Senate knows now what has happened to the Appropriations Committee under the Budget Act. It has been totally stripped of any ability to make decisions to react to different changes in the economy. It has none at all, because we don't have the power to raise money. Maybe we should give the Appropriations Committee the right to report out revenue-raising measures. Maybe that is the solution. Every committee ought to have the right to report out revenue-raising measures if it decides that there is a new program that ought to come into being notwithstanding the budget.

Senator LONG. Senator, I regret to tell you that you are a better expert than I am on the problems of the Appropriations Committee. I don't know much about them because I never served on that committee. If you have some problems with that committee, I would urge you to suggest the answers to them. Tell us what the problem is——

Senator STEVENS. Revenue is the answer, my friend.

Senator LONG [continuing]. And we will try to cooperate in finding the answer to it. All I can tell you is that, to take the example I gave, if we want to increase the earned-income credit which helps low-income people and we want to pay for it with a tax, we should be privileged to bring a bill out that would do that and the bill should not be subject to a point of order. Now frankly, if it ever occurred to me that it was going to be a problem to pass such a bill, we would have written the Budget Act differently.

All I am saying is where we are completely within our jurisdiction—we are not talking about any quarrel about jurisdiction or anything of that sort; we are talking about completely within our jurisdiction—if we have one item that is going to cost us something and we pass a tax to pay for it, we ought to be privileged to do that. Basically we are creating a budget surplus as far as that bill is concerned. We are raising more revenue, bringing you some money you can spend over there on your Appropriations Committee based on your judgment, and it seems to me that we should not be discouraged from doing that if we think it is in the Nation's interest.

Senator STEVENS. Thank you, Senator.

Chairman ROTH. Senator Mattingly.

Senator MATTINGLY. Not at this time. I will come back with a question in just a moment.

Senator ROTH. Senator Long, I would just like to make one further observation. I think your proposal that the economic assumptions should be written into the Act is a very innovative and interesting one. I think we are all aware that the preparation of the economic forecasts is more of an art than a science. There is no question that the ability to change those forecasts is a tremendous power which Congress itself does not act upon under the current budget setup.

I suppose one of the problems is how can we do this in an expeditious manner when there is a significant change. But I would like to ask you this: Under this proposal, are you really giving CBO and the OMB tremendous power over the legislative process by changing their guesstimates?

Senator LONG. The point I am making here is that in the last analysis, the question should be what does the Congress really want to do. The Congress in the budget resolution tells us that we can pass a certain bill. Suppose it is a bill that loses revenue; suppose it is a tax cut. So we are completely within our jurisdiction and we are complying with the budget resolution when we pass the bill. We are doing exactly what we are supposed to be doing.

Then after we go to conference, the CBO changes its estimates. All of a sudden we are a bunch of bad boys. We can't pass the bill because they changed their economic assumptions and their estimates.

It is all right with me if the Senate wants to change those economic assumptions, but for the Congressional Budget Office to do so without consulting us, without us having any chance to make any input or to make a plea for our case, makes legislating difficult. Suppose we are talking about the Roth-Kemp tax cut bill. You got it through the Senate and you got it through conference and then CBO changed their estimates in such a way that the bill could not be considered any longer, a single objection would keep it from being law.

It seems to me that if you were within your rights to bring the bill up and consider it and vote it on through, you ought to be permitted to bring it on back through the Senate, unless the Senate wants to adopt some resolution that precludes you from doing that.

Chairman ROTH. I recall one of the principal problems we have had in recent years is the so-called economic models. The CBO and even OMB have been using a static approach rather than taking into account the impact of tax cuts. I think there is a great deal of merit in what you are proposing.

Senator LONG. Thank you very much.

Chairman ROTH. Thank you very much for being with us today. We look forward to working on these matters with you.

Senator LONG. Thank you very much, Mr. Chairman.

[Senator Long's statement concerning proposed Budget Act amendments follows:]

STATEMENT OF SENATOR LONG CONCERNING PROPOSED BUDGET ACT AMENDMENTS, OCTOBER 29, 1981

Since the 1974 enactment of the Congressional Budget Act, the Senate has, for the most part, been able to accommodate itself to the major procedural changes required by the adoption of the budget process. It was inevitable, however, that a

change of that magnitude would have some unforeseen results which do not advance the true purposes of the Budget Act but do create unnecessary obstacles to the consideration of legislation. In the last Congress, I introduced four proposed amendments which I believe will improve the ability of the Senate and its Committees to carry out their legislative responsibilities in a manner totally consistent with the goals and objectives of the Budget Act. These amendments, which are procedural in nature, represent some of the most significant needed improvements which I have identified during the seven years that the Budget Act has been in effect. I believe the adoption of these amendments will do no harm to the budget process but rather will enhance its effectiveness.

1. REVENUE AND EXPENDITURE IMPACT (PROPOSED SECTION 907 OF THE BUDGET ACT)

Problem: Certain revenue and expenditure items are typically considered in the same legislation. Such legislation may be designed by the Finance Committee to stay within the overall budgetary goals concerning the budget surplus or deficit yet run afoul of the budget process because the Budget Act treats revenue and expenditure items separately.

Example: After the second budget resolution, spending committees may have enacted legislation fully using up the expenditure limits. Revenue increases totalling $3 billion may be needed to meet the revenue floor. The Finance Committee may wish to report out a bill which raises $7 billion in new revenues offset by $2 billion tax relief to lower-income persons. If part of this relief affects the earned-income tax credit, however, the Committee bill would be subject to a point of order since that provision's refundable aspects are treated as expenditure items. This would be true even though the bill as a whole provides a net $2 billion budgetary surplus over and above what the budget requires.

Proposed solution: Provide that legislation including both expenditure and revenue items will be considered on the basis of its net budgetary impact for purposes of applying the various requirements of the Budget Act (that is, on the basis of its impact on the overall surplus or deficit).

This change would be consistent with the practice of the Senate of using the budget process to set budgetary objectives and not to prejudge the details of the legislation which will achieve those objectives. For example, early in the history of the budget process, a question arose as to whether the revenue targets in a budget resolution bound the Senate to the particular types of revenue changes which the Budget Committee had assumed in proposing those targets. The judgment of the Senate was that the Budget Resolution was binding as to the end result, but the Senate and its Committees retained full flexibility to determine through the ordinary legislative processes the particular types of revenue changes to achieve that result. In a similar vein, the Chairmen of the Budget Committees have on many occasions defended the proposition that the budget process deals with budgetary objectives and not with the line-item details of how the Congress will achieve those objectives. The amendment I am proposing is consistent with this long-standing approach of the Senate to the budget process. It would allow the Finance and the Ways and Means Committees (and the Congress as a whole) additional flexibility to shape legislation involving revenues and expenditures. This flexibility, however, would not in any way undermine the budget process since the overall budgetary situation would still have to fit within the objectives set forth in the budget resolution.

2. COMPARABLE TREATMENT FOR IDENTICAL BILLS (PROPOSED SECTION 908 OF THE BUDGET ACT)

Problem: It sometimes happens that a bill which fully complies with the Budget Act does not reach enactment, and it becomes necessary to use a different bill as a vehicle for the identical substance. Because of the passage of time, the second bill may run afoul of Budget Act procedural requirements (for example, as to the deadline for reporting the bill) even though there is no substantive change.

Example: In 1978, the Finance Committee reported legislation to extend funding of child support for non-welfare families. The House failed to agree to this prior to the end of the Congress. Identical legislation in 1979 could have been blocked by a point of order because it had to be placed on a different bill (because of the intervening end of the 95th Congress). Had the 2 years in question been 1979 and 1980 rather than 1978 and 1979, the same bill could have been used and no point of order would have been applicable.

Proposed solution: Provide that Budget Act points of order will not lie against a bill if in the same or preceeding year a bill substantially identical (insofar as the

matter related to the Budget Act problem) was reported and if that earlier bill would not be subject to the Budget Act point of order.

3. CONGRESSIONAL APPROVAL OF ASSUMPTION CHANGES (PROPOSED SECTION 909 OF THE BUDGET ACT)

Problem: Under present procedures, the impact of a budget resolution on the legislative process is subject to sudden major revision through the adoption of new economic assumptions by CBO without an opportunity for Congress to review the changes and their impact on pending legislation.

Example: At the time Congress adopts a budget resolution it sets the budgetary totals at levels designed to allow for certain legislative actions. The House and Senate then pass bills designed to fit within the budget resolution allowances. While that legislation is in conference, CBO adopts a reestimate based on its economists' reassessment of the economic climate. This greatly increases the cost of present law programs thus eliminating the room for the new legislation being considered by the conferees. Since this is purely an administrative action by CBO, the force and meaning of the budget resolution previously adopted by the Congress has been significantly changed without any Congressional opportunity to review the change.

Proposed solution: Provide that basic economic assumptions are to be incorporated into each budget resolution and are to remain in force for estimating purposes until that resolution is modified or until Congress adopts (through a simplified, expedited procedure) a resolution approving a change in assumptions.

4. PERMIT COMMITTEE MODIFICATION OF LEGISLATION VIOLATING BUDGET ACT (PROPOSED SECTION 910 OF THE BUDGET ACT)

Problem: Because of the passage of time, new interpretations, or changing estimates, bills which comply with the Budget Act when reported may be out of compliance before they are called up for Senate consideration. In such a situation, consideration of the bill is subject to a point of order even though the reporting Committee may be ready and willing to modify it so as to cure the Budget Act violation.

Example: In the 96th Congress, the Finance Committee reported a bill which appeared to be in conformity with the Budget Act. When it was later discovered that a Budget Act problem existed, the Committee would have been willing to make the necessary modifications to overcome the technical defect. Under current rules, however, any Senator opposing the bill on substantive grounds could block its initial consideration on the basis that, as reported, it violated the Budget Act. Consequently, the Committee was forced to re-report the measure using a different vehicle in order to make the technical change that overcame the Budget Act problem.

Proposed solution: When a bill is in violation of a Budget Act provision but the Committee reporting the bill has approved a modification which cures the Budget Act problem, make it in order to call up the bill on condition that before further consideration of the substance of the bill, the modification will be made.

Chairman ROTH. Senator Dole. I welcome the chairman of the Finance Committee. I look forward very much to your observations.

TESTIMONY OF HON. ROBERT DOLE, U.S. SENATOR FROM THE STATE OF KANSAS

Senator DOLE. Mr. Chairman, let me say I am pleased to be here. Let me also say I left Senator Heflin presiding over the hearing that I should be presiding over. I hope he stays for a few more minutes.

I have said many times that after being around here 20 years, I finally became a committee chairman, only to learn that I was chairing a subcommittee of the Budget Committee. So I am really a subcommittee chairman of the Budget Committee.

But I like the budget process. I have said that to Senator Domenici and Senator Hollings and others, but I also think we should reinforce it.

As I will set forth in my statement, it is probably not a perfect system. I looked over some of the areas that Senator Long ad-

dressed. His views are based on his experience and staff experience during his chairmanship, and reflect some of the real problems that he had. I would just like to summarize my statement and ask it be made a part of the record.

I am here primarily to reinforce my support for the process, under the Budget Act, and to commend this committee for the oversight hearings. I think there are areas that can be changed.

As Senator Long may have pointed out, we have some few problems in the Finance Committee. We have to both manage the initiatives in the Finance Committee and assure our compliance with the Budget Act, but I find on the whole that we have been able to coordinate our activities with the Budget Committee fairly well. We haven't had any major problems, at least in this year, with the Budget Committee. We grouse occasionally about their awesome power and how they in effect direct us and tell us what we should do.

But, on the other hand, I can cite the problem we are facing right now, or at least what some would indicate we are facing, as far as the possible need to increase revenues or cut entitlements. I agree with the statement of Senator Stevens, that entitlement programs and other so-called uncontrollables have to be looked at or looked into. But I think over the next 3 years we are going to reduce entitlement spending by about $50 billion under the reconciliation program we have just enacted a few months ago.

But we are looking now at the prospect of a second round of budget reductions and some would say revenue enhancement. That hasn't been determined.

Very honestly, I have said to Senator Domenici and the Budget Committee members that we need their direction. It seems to me that it has been helpful to the Finance Committee to have a mandate or direction from the Budget Committee for certain amounts—not specifics, but to say revenues of $10 billion or entitlement cuts $5 billion over a certain period of time. That gives us a certain direction and a certain reinforcement that we need.

We found it worked very successfully in the reconciliation process. I think in two sessions in our Finance Committee we were able to reduce spending in 1982 by about $10 billion. About a third of the total spending reduction came from the Senate Finance Committee. So I think the process will work. I think it can be reinforced and it probably can be strengthened. I hope that these hearings will help do that.

I would guess that without the budget process—and the chairman of this committee was one of the initiators and originators of the whole process—we could be looking at even greater deficits and greater problems had we not moved in the Congress to instill some discipline within our own institution.

There probably are some practical problems that could be remedied. In cases where jurisdiction over particular budget items is divided among two or more committees, there ought to be a consistent rule for allocating budget savings. This would avoid unnecessary confusion over the responsibilities of committees with overlapping jurisdiction.

In nearly every case we have in our committee we may have an overlap, even with this committee. We had that brought to our at-

tention by Senator Stevens on the Senate floor. We were meddling around with his jurisdiction. He defeated us in a close vote. We have had problems of overlapping jurisdiction with the Labor Committee and others. In addition, I would note that a bill may be in compliance with the act when reported but fall out of compliance before floor consideration—it is the same thing that Senator Long mentioned—due to new estimates or new interpretations of the Budget Act.

Where the reporting committee is willing to modify the bill to correct the Budget Act problem, it should be possible to consider the legislation with the needed modification. This I think again, as Senator Long pointed out, would prevent a mere technical objection from holding up a major piece of legislation. We shouldn't have to contend with that. It is difficult enough, as everyone on this committee knows, to get legislation reported at times, particularly if it is with reference to entitlement or budget reductions.

So I just suggest that we do need an institutional restraint on the budget. We do need a benchmark that we are obliged to heed, notwithstanding the shift in the political winds or the changes in Congress or the changes in attitude of Members of Congress, regardless of their party. I frankly would prefer that we go ahead and adopt a balanced budget amendment, a constitutional amendment. I would like to see the President—and I note that he mentioned it just recently—be given a line item veto. That is another matter that has been addressed by the chairman of this committee. I have suggested that through the years, most recently I guess in 1976, campaigning with President Ford. The only thing is, I think I forgot to tell him about it, as I look back on it. He thought it was a good idea, too.

So there are ways, maybe other than through the budget process, that we can address the problem; certainly a constitutional amendment would help, giving the President line item veto authority, but I don't foresee that happening. Notwithstanding that, it is my hope that we can reinforce the process, maybe accommodate some of the concerns that people will express, that Senators will express, and Senator Long has just expressed, and at the same time protect the rights of those committees. I really believe in the authority of our committees.

If in fact the Budget Committee should reach the point where they direct us and the Finance Committee to say you have got to cut program A, B, C, and D and you have to raise revenues by taxes on A, B, C, and D, then there is no reason for our committee to exist. That is the one fear that most of us have, whether we are committee chairmen or members of the committee.

I would hope that we don't extend too greatly the authority and the powers of the Budget Committee; but, very honestly, I find their support very helpful in our committee deliberations and the final actions we take.

Chairman ROTH. Would you think it desirable to try to move to a 2-year cycle in the budgetary process so that one year the Congress could concentrate on budget matters and the other year on oversight?

Senator DOLE. I haven't thought about that, but I think that is one problem we have. We have it right now. The year is about

over. The Budget Committee is far behind for a number of reasons. But anything that would expedite and ease——

Chairman ROTH. Simplify.

Senator DOLE [continuing]. And simplify. We go through a lot of misery around here. About the time we finish one problem, we are faced with the next year's problem. Right now who knows when they are going to have appropriations bills? Are we going to live with the continuing resolution all year? Maybe Senator Stevens knows, but the rest of us don't know.

Chairman ROTH. I know you have to return to your committee. I will call on Senator Stevens.

Senator STEVENS. No, I don't disagree with my friend. I might have some reservations about that item veto. If you can show me how a small State could possibly muster enough votes to overcome an item veto when something was absolutely necessary for that State but was being retaliated against by a President they had just voted against in the last election, I would be happy to support the item veto.

Senator DOLE. That is one of the practical problems with item veto. But many Governors use it rather successfully.

Senator STEVENS. But they are from a cohesive area, a State, and they have to answer to the people of that particular area. The President answers to the whole country, and yet a small State has no—we have seen Presidential elections when they have not even come to Alaska. They are not really concerned about Alaska, you know, but yet we have some items that are very vital. Yet people say we can lop that off.

Senator DOLE. No. I understand the real pitfall. It would save a lot of trips to the White House, though. The President could just call you and say, "I have a little bill here that you have an interest in." If you wanted to play that game. And I am not suggesting any President would ever do that. [Laughter.] But it could be somebody comes along who would discover that that is a possibility.

Senator STEVENS. Somebody might. Thank you.

Senator MATTINGLY. I don't know whether this is a question or a statement to you. I assume the object of the hearing is not to patch up bruised egos, however, I do understand there has been some conflict since I have been here—almost 10 months—between the Budget Committee and the Appropriations Committee and the Finance Committee. I think the process has worked pretty good so far. But I think we are in a unique time now. To get deeply concerned over what committee has what authority, I am not sure whether that is going to solve the problems of the economy. The process not being reactive to outside forces is probably the best thing I think that we can look forward to.

I think that your committee and other committees should not be reactive to what somebody else may say—because I think the sanctity of the committee is not what we are looking for. I don't think the people of the country are looking for that. What they are looking for is a solution to the problems faced by America.

This being an unusual time—it is not business as usual; that has been sort of worn out—people out there are waiting for the interest rates to go down and us getting the economy restored. I would just like to hear your opinion on it because I think the initiatives that

have come up here have come out at a more rapid pace than they ever have in the past. Is that true?

Senator DOLE. The other experience with reconciliation was a couple years ago. I think we ended up with a paper savings of about $2 billion, but I can tell you very honestly most of that came from our committee. We did some shifting. We just shifted things into one fiscal year. Then next year we shifted them back. There weren't any real savings.

Some would say we shouldn't use the reconciliation device so early in the budget process. I understand that Senator Hollings feels that way and indicates it will not be used as early as we used it this year. But we are in a very critical time. I don't think the people in my State give a hoot about fighting over committee turf. They don't care whether Bob Dole or Russell Long or Pete Domenici or Fritz Hollings is going to have the action. What they want is some action to do what you suggest. I understand maybe if they were in our position they might not feel that way. So I think we can still preserve our committee system and the powers of our committee, but we have to have the discipline.

I want to work with the Budget Committee. I have a good relationship with members of the Budget Committee. I served on the Budget Committee. I remember when Senator Kassebaum came to the Senate. They forgot I was on the Budget Committee and put her on the Budget Committee. There was a rule, as Senator Long said, that you can't have two Senators from the same State on the same committee. Being the gentleman I am, I yielded my seat on the Senate Budget Committee to Nancy. She had to vote no all the time. [Laughter]

It is a tough committee. I sympathize with them. But they really offer a lot of leadership and direction and give us a little backbone from time to time when we need it.

Senator MATTINGLY. Thank you. I think it has been a good year for activists.

Senator DOLE. Right.

Senator MATTINGLY. Thank you.

Chairman ROTH. Thank you, Senator Dole.

[Senator Dole's prepared statement follows:]

PREPARED STATEMENT OF SENATOR ROBERT DOLE

Mr. Chairman: I appreciate having this opportunity to make a few remarks on our experience with the Congressional Budget and Impoundment Control Act of 1974. Because such an unusual emphasis has been placed on budget control this year, this is an appropriate time to look at how well the budget process works.

As chairman of the Finance Committee, I must both manage legislative initiatives in the Finance Committee and insure our compliance with the Budget Act. But on the whole I find that the Finance Committee and the Budget Committee coordinate their activities fairly well, partly because we make a special effort to keep lines of communication open. That is crucial to the success of any budget process, however well crafted.

Mr. Chairman, this year there has been much comment that the Budget Act has been twisted about to serve the purposes of the present administration. In brief, it has been held that using the reconciliation device so early in the budget process was not envisioned in the Budget Act, and that the tight deadlines imposed on legislating committees prevented careful weighing of alternatives.

I cannot agree with that assessment. It is not denigration of previous efforts by the Budget Committee to say that the budget process has been more effective this year than in any year since the Budget Act was passed. This is so not because the

law has been abused, in my view. Rather it is true because we have a President, an administration and a Budget Committee willing to make maximum use of the tools the Budget Act provides.

POLITICAL CLIMATE A KEY FACTOR

My basic point is that the political momentum for spending restraint is crucial to the success of the budget process. The procedures set forth in the Budget Act are by no means perfect, but they can work well when it is clear that the public wants Congress to control spending. Without political pressure, despite the Budget Act, spending restraint has been difficult to achieve. Only in 1980 for the first time did we use the reconciliation procedure to achieve any significant budget savings. Even then, it was necessary to work compromises involving promises of higher future spending in some areas.

This is not to say that the Budget Act is unnecessary. Without the budget process, spending might have grown even more rapidly over the last 7 years. The Budget Act does provide helpful tools: But that is not enough. We must have the will to use them.

IMPROVEMENTS COULD BE MADE

Mr. Chairman, there are some practical problems with the budget process that could perhaps be remedied. In cases where jurisdiction over particular budget items is divided among two or more committees, there ought to be a consistent rule for allocating budget savings. This would avoid unnecessary confusion over the responsibilities of committees with overlapping jurisdiction. In addition, it should be possible for legislative committees to modify reported legislation so as to correct a point of order that may lie under the Budget Act. A bill may be in compliance with the act when reported but fall out of compliance before floor consideration, due to new estimates or new interpretations of the Budget Act. Where the reporting committee is willing to modify the bill to correct the Budget Act problem, it should be possible to consider the legislation with the needed modification. This would prevent a purely technical objection, unrelated to the purposes of the Budget Act, from holding up legislation.

A LONGER VIEW

Mr. Chairman, I do believe these few modifications would improve the workings of the budget process. But as I have said, I believe the budget procedures as they now stand are generally satisfactory. The problems we continue to face with the budget are not due to flaws in the procedures, but to a fundamental political fact: Members of Congress are disinclined to cut back spending that benefits their constituents. They have succeeded in doing so this year because the public has made clear its concern over the level of Federal spending. In other years, however, different concerns may prevail. Effective procedures for adopting a budget are not enough to guarantee effective restraint on spending over the long term.

We do need an institutional restraint on the budget, a benchmark we are obliged to heed each year regardless of shifting political winds. Like many other members, I would prefer that congress, on its own initative, adhere to long-term spending goals. Experience, however, shows that the pressures on Congress to meet the needs of various interests in our society can short-circuit efforts to control the budget. That is why an externally-imposed limit on the budget could make a substantial difference in results.

Such a limit could be imposed through the Constitution. I know that many Members are reluctant to bind Congress to a particular budget goals through a constitutional limitation. We are all reluctant to alter the Constitution, or to sacrifice any prerogatives we may now have. But I have become convinced that only with a strict rule of law governing the budget can we meet the fiscal needs of the Nation in a responsible way.

A WAY IS AVAILABLE

The Judiciary Committee has already approved just such a constitutional amendment. S.J. Res. 58 as reported by that committee would require the adoption of a balanced budget unless Congress determines otherwise by a three-fifths vote. In addition, the amendment would limit tax receipts as a percentage of national income unless Congress expressly votes to increase the percentage. Neither of these limitations is excessively rigid, because Congress may opt out of the budget requirements if there is a strong consensus that such action is needed. But this amendment would

give us a firm rule to follow in shaping the budget, and would enhance our ability to adhere to reasonable budget limitations notwithstanding the many conflicting demands on the Federal Government. I believe the amendment would increase the effectiveness of the existing budget process.

A JOINT RESPONSIBILITY

Finally, Mr. Chairman, let me remark on the nature of the budget process in our political system. The Budget Act was adopted in 1974 because of congressional concern that its failure to monitor the budget effectively risked ceding authority over the budget to the executive branch. Most observers would agree that the act has helped Congress reassert authority over the budget. Yet it remains true that the Federal budget is the joint responsibility of the executive and legislative branches. We must dispose of the President's suggestions, but it is he who first proposes the budget.

It is no denigration of Congress to suggest that the President is in a better position to consider the general goals of the Nation in preparing a budget. Members of Congress each have particular concerns that they must reconcile with one another in agreeing on a budget. Simply because of this multitude of concerns, it is more difficult for Congress to shape a budget with a view to the general interest of the Nation. Furthermore, the Chief Executive is ultimately held responsible for the management of the Nation's finances.

Under present procedures, the President is hindered from fulfilling his responsibility with respect to the Federal budget. Congress will send the President a package of appropriations for various programs, and he will have to accept or reject that package as a whole. A veto of the package may or may not force Congress to reconsider certain elements of the appropriation, but that is not an efficient tool for budget management.

Mr. Chairman, I believe we must give serious consideration to authorizing the President to veto line items that he regards as inconsistent with his budget goals. Such authority in the executive would give a better balance to the budget process, but would not prevent Congress from setting its own priorities. An item veto could be overridden, like any other veto, but it would force Congress to focus on, and defend, funding for specific programs.

President Reagan has suggested he would like to have the authority to veto line items, but he also acknowledged it was unlikely Congress would cede him such authority. It is clear that an item veto could only be effective if included in the Constitution, because it would alter the powers of the Executive in a significant way. No one appreciates the prerogatives of Congress more than this Senator, but I suggest that it is time we accept the fact that the public interest may require some limits on those prerogatives. This issue demands careful study, but I would urge the Members to weigh the merits of a constitutional change to give the President item veto authority.

A BETTER BALANCE

Mr. Chairman, along the same lines, we ought to consider revising the present law governing the power of the President to without funds appropriated for a particular purpose. A President may determine that funds intended for a certain goal are no longer needed, or that they should not be spent because of overriding economic or other considerations. However, unless both Houses of Congress ratify a President's determination to without funds within 45 days, the funds will be released. We could improve management of the Government's finances if we reversed this procedure. Both Houses of Congress then would have to reject the President's proposal for lower spending, or the cuts would be made. Congress would retain the authority, indeed the duty, to review spending decisions made by the President. The burden of proof would be shifted, however, and a strong case would have to be made that the spending was needed.

Each of these changes would create a presumption in favor of lower Federal spending. That is the point: That is why I believe they are needed. Spending would not have reached its present levels were there not a certain bias in our procedures in favor of increased spending. It is time for us to consider something new.

Thank you.

Chairman ROTH. Senator Ford, I appreciate your patience.

TESTIMONY OF HON. WENDELL FORD, U.S. SENATOR FROM THE STATE OF KENTUCKY

Senator FORD. I thank the chairman. I have been enjoying this conversation and listening to the witnesses because I think it is very important to you and all of us in the Congress and particularly to the people as it relates to the process that we are going through.

Mr. Chairman, I am grateful for the opportunity to appear before your committee during this oversight hearing on the Federal budget process.

With your permission, Mr. Chairman, I would like to submit my full statement for the record and confine myself just to a brief summary statement.

Chairman ROTH. Without objection.

Senator FORD. As both of you know, I am sure, on September 30, Senator Bumpers and I introduced S. 1683, a bill to amend the Congressional Budget and Impoundment Control Act of 1974, the Budget and Accounting Act of 1921, and the Legislative Reorganization Act of 1946. Since the introduction of that legislation, many of our colleagues, some on this committee, have joined in sponsorship of that legislation.

Mr. Chairman, may I say, before I go any further, that I have been laboring with this piece of legislation now for about a year. I think I have had some very talented people help me in the process. Rather than going into a study and review and that sort of thing, I thought it was important that we lay a document down before the various committees in order to have an opportunity to look at it. So therefore, having gone through the many pieces of testimony by Alice Rivlin, who is here this morning, having looked at GAO's suggestions that we go to a 2-year budget, having listened to Senator Long's testimony on the need for more time to adjust to changes; and recognizing how rapidly and how often we must react to banking and housing and taxes and energy issues, and so forth, I believe this may be the right legislation at very near the right time.

Mr. Chairman, the principal purposes of this bill are to change the Government's budget cycle from 1 to 2 years and to make other necessary improvements in the budget-making process.

Since I expect you will receive considerable testimony at these hearings on the subject of reconciliation, I will limit my present comments to the extension of the budget cycle.

It has been my experience that our present budget process has become increasingly unrealistic. Annual budgets and appropriations have not really worked for years and the additional requirements of the Budget Act, in my opinion and the opinion of others, have made matters worse.

I need not remind this committee we began this fiscal year without enactment of a single one of 13 appropriations bills. The entire Government is still operating on a continuing resolution. I think that may be a sad commentary on our budget process.

The time has come to accept the realities that in our complex, modern society, Government economic planning, budgeting, and appropriating cannot be done constructively in a 12-month period.

Moreover, it is unnecessary for most, if not all, of our Government functions to go through the authorization, budgeting, and appropriation steps every year.

I believe there are many reasons why we should go to a biennial budget process, but I plan only to mention what I consider to be the key ones at this time.

First, it would allow the executive branch and Congress more time to analyze the thousands of budgetary decisions which must now be made annually. Administrations would have months instead of weeks to prepare a budget, and Congress would be allotted sufficient time to hold hearings and to debate administration proposals—even after oversight was conducted.

The annual appropriations process restricts informed debate on the budget and consideration of major policy issues. It does not allow the executive and legislative branches to ever really measure a program or agency against established goals. Both are forced by the time constraints to limit themselves only to pro-forma reviews of the budget. Very limited, if any, time can be devoted to program review, proper planning, and consideration of major policy issues.

Second, it will enable Federal agencies and State and local governments to plan better for the implementation of programs. Moreover, it will relieve the uncertainty associated with annual appropriations and will result in an improved delivery, I believe, of Government services.

We agree pretty much among ourselves that State and local governments must be provided advance notice—I underscore advance notice—of how Federal budget cuts will impact on their plans and budgeting. But the annual budget cycle fails miserably, in my opinion, Mr. Chairman, to give these governments much lead time. States and localities often are forced to wait until the first day of the Federal fiscal year to learn at what level, if any—under the continuing resolution they still are in doubt—or whether a program will be funded at all.

An important goal of the biennial budget proposal is to reduce this unnecessary waste and mismanagement—I underscore waste and I underscore mismanagement—by providing advance notice of most budgetary decisions.

As a former Governor, I have had considerable experience with a 2-year budget. I think some 22 States now have biennial budgets. We were able to develop programs to the maximum through long-range planning. A 2-year Federal budget would greatly facilitate the ability of State and local governments to give stability and direction to programs under their jurisdiction. This is something State and local governments cannot do now because of the limitations and complications created by an annual appropriation cycle at the Federal level.

Finally, I believe that the biennial cycle will inject a spending discipline throughout government which can have a significant beneficial impact on reducing the expenditures of the Federal Government and thereby reduce inflation. It might even restore a certain amount of stability to Federal fiscal policy and thereby the economy as a whole.

In closing, Mr. Chairman, let me just add, I don't believe we will lose any flexibility in meeting unforeseen changes in our economy,

since supplemental bills will be even easier to move through a biennial budget Congress than they are now.

I hope all of my colleagues will look seriously and carefully at S. 1683. It has merit and deserves thoughtful study. I believe it can help us not only save money in the aggregate but also help us make the difficult allocation decisions which are essential to achieving balanced budgets.

Mr. Chairman, I thank you for this opportunity. I will be happy to answer any questions.

Chairman ROTH. Thank you, Senator Ford.

First let me say that I strongly believe that we should try some form of a 2-year cycle. I agree with you that it makes good sense, that it will bring some stability into the process, and that it will enable us to concentrate and do a better job on the big decisions rather than the proliferation of so many, many decisions that we are always lost in the jungle. So, I congratulate you for your proposal.

Let me raise two or three questions with respect to the specifics. As I understand it, in a new administration, the budget would not go into effect until the President's term is half over. I suspect that any new President, whatever his philosophical bent may be, will be very eager to put his imprint on budgetary matters. It has occurred to me that while we could go to 2-year budget cycles, the President and any new administration should still be able to move quite quickly in fiscal matters, as happened this year.

Senator FORD. Mr. Chairman, I understand the concern of the incoming administration, but I found in the biennial process in the States, where you have a new Governor that is extremely anxious to get his imprint on the State, that that budget process that is in place gives him an opportunity not to be hasty in developing his own thoughts, having the right kind of people come in and to advise him.

In my State, for instance, based on the State constitution, the Governor takes office within the first 10 days of December. The legislature goes into session the first Monday after the first Tuesday in January. The fiscal year ends July 1, or June 30. Therefore, that gives him an opportunity to develop his budget, submit it to the legislature, and give them an opportunity to peruse it and either approve or disapprove. That is, of course, in a lesser amount and in a less complex arena than we play in here. But I do believe it would give the new administration a well thought through budget process and give them the opportunity not to make the hasty judgments that I see are creating many of the problems we have after the budget proposal is submitted.

Chairman ROTH. I notice that one of your proposals you would prevent the budget resolution from instructing committees to make changes in authorizations. Now, Senator Dole, Chairman of the Finance Committee, has just testified that these instructions have been very helpful in getting the Finance Committee to take action in its area of responsibility.

I understand your problem, because it has meant in the two times we have done this that we have sort of bypassed our normal legislative processes with respect to authorization.

On the other hand, there is no technique outside of this reconciliation to get action in some of these areas. Do you see any means of reconciling these two conflicting goals or do you think we should go back to past practices?

Senator FORD. I never had too much problem with past practice. I think we can merge the two. Under the legislation we have introduced, appropriations bills which are passed and ready for presentment to the President all lay at the table until there has been an opportunity for reconciliation. Also when the legislation goes to the President for his signature it goes in separate packages so that he would not have to veto a total package. I think with that flexibility we might not have the problem and the turf clamor that we have today as it relates to the ability of the various committees to function as they see they should.

Chairman ROTH. I may not fully understand your proposal, but let me ask you this: let's assume we come to the second budget resolution, and the authorizing committees have not acted. Is there any enforcement procedure in your legislative proposal that would require Congress to meet its budget targets?

Senator FORD. Mr. Chairman, under the process we have now, that the spending bills must be within the budget ceiling, we allow the Budget Committee to instruct the authorizing committees. Under this legislation that is not eliminated. Authorizing committees could still be instructed regarding the entitlement programs within their jurisdiction under this piece of legislation.

Chairman ROTH. Let me see if I understand your proposal correctly. For example—let's take an authorizing committee. Let's say to meet a certain budget goal, modification of that particular program is required. Maybe I misunderstand your proposal, but it is my understanding the Budget Committee could not instruct the committee as it has in the last 2 years.

Senator FORD. If it is funded through the Appropriations Committee, they could not instruct the authorizing committee.

Chairman ROTH. Senator Stevens.

Senator STEVENS. I made a note of that bill. I really haven't studied it yet personally. I would be happy to do that. I think you have some good suggestions. I too have believed in the 2-year cycle for a long time. But whether it can be achieved or not, I don't know.

Senator FORD. It is something, Senator Stevens, that I believe we all are seeking—one, to give us some time to do a better job, I think; second, it gives us the ability—there is not an orderly transition of the programs today, of the impact of Federal budget cuts, to the planning of State and local communities.

Senator STEVENS. That is right.

Senator FORD. If we had a 2-year cycle, it might help an orderly transition.

Having served as a Governor of a State on a 2-year cycle, I know how much it meant to me to be able to project for 2 years. We had the flexibility to make changes. If we had an increase of funding that we had not anticipated, instructions could be given to where it could be spent, or not spent. If we do not meet our goals, the reductions can be built in. Everybody has, over a 24-month period, an opportunity to understand that. Then we can give more of our time to necessary adjustments without being pushed.

I believe there are presently 4,000 pages or more in our Federal budget. I am not sure. It is just almost impossible for any of us to labor through that volume. Then we have a committee hearing, and we have two, three agencies, one behind the other, making their suggestions on their needs, and then we have to run someplace else to make another meeting. We need the time to sit down with individual agencies and look at it and be sure we do a better job, and by doing a better job we are going to spend less money and get more for our dollar.

Mr. Chairman, before I leave, I would like to point out that on page 5 of Mr. Havens' statement today, the following appears, "Still, we need to consider what changes might permit more time for adequate analysis and deliberations on budgetary questions. Legislation is pending before the Congress that would move the Government to a biennial budget cycle and spread authorizing and appropriation actions over a 2-year period. Conceivably, this would provide the needed breathing space." I think that is a good observation. They state they have a study that will be out early in 1982.[1]

Alice Rivlin's statement before this committee today, and I have quoted her and gone through many of her statements over the last several months, says, "It is hard to think of examples of activity that really need thorough reexamination and redirection each year. Too frequent changes can be counterproductive." I think the too frequent changes occur with great regularity.

So I leave you with those two thoughts from these two distinguished people, who will follow my testimony.

Chairman ROTH. Senator Ford, I just want to say, as I said earlier, that I strongly agree with the desirability of creating a 2-year cycle. I think it is important from the standpoint of the workload here in Congress to give better consideration to the basic decisions.

I also think you make a very valid point. One of my concerns is that the people back home in Delaware, those in the State government, the small communities, the counties, and the various groups who are receiving funds, never really know what they are going to get until the year is half over. I think this is something that we haven't concerned ourselves with sufficiently. So, I applaud you and think your suggestion is excellent.

There are a few things I would like to discuss further. I am not sure that we need two budget resolutions. We look forward to working with you on some of these details. Thank you very much for being here.

Senator FORD. I thank the chairman very much for his courtesy.

[Senator Ford's prepared statement follows:]

PREPARED STATEMENT OF SENATOR WENDELL H. FORD

I am very grateful for this opportunity to appear before this committee during your oversight hearings on the federal budget process. All of you, I am sure, know that on September 30, 1981, Senator Bumpers and I introduced S. 1683, the "Budget and Oversight Improvement amendments of 1981." We have since been joined in sponsorship by Senators Pell and Danforth. S. 1683 amends the Congressional Budget and Impoundment Control Act of 1974, the Budget and Accounting Act, 1921, and the Legislative Reorganization Act of 1946 for the purposes of:

[1]See p. 192 for Mr. Haven's statement.

(1) changing the budget cycle of the United States government from one to two years;

(2) clarifying and modifying congressional budget procedures, including those for budget reconciliation bills and resolutions and for the enrolling of spending measures;

(3) including the $400 billion Federal credit programs and $18 billion off-budget agencies within budget totals and the budget process;

(4) establishing standards and stability in the detail supporting tables accompanying budget-related legislation and other budget-related reports so it will be possible to relate accurately the actions of one organization to those of other organizations and to actions of the same organization at different times; and

(5) strengthening the requirements for committees to conduct ongoing oversight of Federal programs.

In the balance of my remarks I will amplify these five points:

I. TWO-YEAR BUDGET

It has been my experience that our present budget process has become increasingly unrealistic. The annual appropriations process was not working prior to the enactment of the Congressional Budget Act of 1974, and the additional requirements established by that Act have made things worse. The pretense of acting as though it does work costs us dearly in time, money, and effort, but the greatest cost may be incalculable, the cost of poor decisions, made in haste, with inadequate consideration of the need or the consequences. The time has come for us to accept the realities that in our complex modern society, government economic planning, budgeting, and appropriations simply cannot be done constructively in a 12 month period. Moreover, it is unnecessary for most, if not all, of our government activities to go through the authorization, budgeting, and appropriations steps every year.

By making these essential procedures serve for a 24 month period, we can do a better job. We can actually do what we now pretend to be doing. We can save money. We can save time to devote to oversight and other important legislative activities. We can better meet the planning needs of State and local governments. We can establish and foster a measure of stability and discipline in government spending which can have a significant beneficial effect on reducing inflation. And we will lose no flexibility in meeting unforeseen changes, since supplemental appropriations bills will become easier to move through a biennial budget Congress when they are needed.

The schedule for the two-year budget cycle is set forth in Section 3 of the bill, on pages 4 and 5, as amendments to the Congressional Budget Act. Section 4 of the bill sets forth corresponding changes to other parts of the Budget Act, and Section 6 sets forth corresponding changes in the Budget and Accounting Act of 1921, which pertain to the submission of budget recommendations by the President.

The essential pattern of the congressional authorization, budget, and appropriations process is retained in S. 1683, but some improvements which become possible in a two-year cycle are incorporated. For example, Congressional action on authorizations, which all occur in the first session of a Congress is completed before the appropriations process begins in the second session. I might point out that the idea of an authorization year and an appropriation year was proposed by Senator Magnuson over ten years ago. In the current one-year cycle, authorizations are supposed to be reported before appropriations bills, but it is a fact of life that the appropriations committees begin their work concurrently with the authorizing committees and that the ideal of an "authorization, then appropriations" sequence is not realized.

Under our bill the Views and Estimates Reports submitted to the Budget Committees by other committees will be due two months before the Budget Committees are to report the first budget resolution and one month after the due date for economic forecasts from the congressional Budget Office. This will enable committees other than the Budget Committee to use the CBO analyses in their own deliberation, and better enable the Budget Committees to use the CBO analyses and committees' views and estimates in their deliverations on the first budget resolution. It isn't possible to really do that now because these events are scheduled just too close to each other.

Committees would be given two months to report their allocations of the fist resolution totals among programs within their jurisdiction. It is not possible to state whether this is more or less time than the present Budget Act provides because the present Budget Act just requires that these reports be filed "as soon as practicable" after the first budget resolution is agreed to. In practice, these reports generally

have been filed (except for this year because of the reconciliation bill) within a few days of the agreement to the conference report on the first budget resolution. One of the reasons that we are proposing so much more time for these reports, and, as you will see in Part IV, proposing a requirement for them to include budget account detail, is that we would like to see them become what they were intended to be, occasions for meaningful analysis and debate of alternatives within committees.

Far more time is provided for the second budget resolution and reconciliation. Six weeks will be provided for the second resolution, which can be more controversial than the first because of its binding character and because it can contain reconciliation instructions. And eight weeks are provided for committees to carry out their reconciliation instructions, for the committees' work to be consolidated into an omnibus bill or resolution, and for Congress to act on the reconciliation measure. The Budget Act only allows ten calendar days for this now.

In the Senate the time for debate is extended from 20 to 100 hours. Mr. Chairman, this will correct one of the most serious flaws in the current process, the lack of adequate time to deal with measures as profoundly significant as the second budget resolution and reconciliation. Like most of the other shortcomings, this one is the result of trying to pack too many events into a one-year cycle, and it is a problem that is easily solved by moving to a two-year cycle.

Moving to a two-year cycle would have been too much of a change to make in 1974 as part of the original Congressional Budget Act. But the changes of 1974 have become established, and it is timely now to move beyond them and to refine them in the light of our experience.

II. CONGRESSIONAL BUDGET PROCEDURES

Mr. Chairman, with respect to other aspects of Congressional budget procedures, I have three proposals. Two of them are not new, but merely clarify the original intent of the Budget Act. The third takes a procedure which the Budget Act now provides as an option and makes it mandatory. The first two proposals deal with reconciliation.

The first is to delete the language in the Budget Act which authorizes the Budget Committees to include in a first resolution virtually any procedural requirement they want and to insert in its place a specific prohibition, enforceable by a point of order, against including reconciliation instructions in a first budget resolution. It was never intended that reconciliation instructions be in the first resolution, and it distorts the congressional budget process for them to be included. It is a serious flaw in the Budget Act that its intent can so easily be overridden. This proposal serves only to prevent from happening that which was not supposed to happen in the first place.

The second proposal is a specific prohibition, again enforceable by a point of order, against reconciliation instructions in the second resolution (or a revision thereto) which deal with authorizations. This too was never intended by the Budget Act. The legislative history, as Senator Hatfield has pointed out on several occasions, is quite clear on this point. Including such instructions is another distortion of the congressional budget process, and the fact that it has been done is further evidence of a weakness in the Budget Act which this proposal is intended to correct.

Such a distortion of the budget process is unnecessary. All the spending reductions that are desired can be achieved by instructing the Appropriations Committees to reduce appropriations by specified amounts, and by instructing authorizing committees to reduce direct spending within their jurisdiction by specified amounts. It is not necessary to good budget procedure to distort committee responsibilities and undermine the integrity of the authorization and appropriations processes in this way.

Now, I think I can see two reasons why it may have seemed desirable to some to include reconciliation instructions in the first resolution. In the first place, the current law, in the ten days scheduled for reconciliation, does not provide enough time for work of any magnitude or controversy. The two-year process and the additional time for the second resolution address that need.

The second reason is that spending bills move through to enactment before the second resolution is agreed to. While in 1974 it may have seemed sensible not to deal with this problem, it now seems ludicrous that individual bits of the budget are finalized piece by piece before the budget as a whole is agreed to. The practical effect is often that bills come to the floor which cost more than was envisioned at the time of the first resolution and which take up room in the budget which either squeezes out other important bills or forces up the ceilings. I can readily sympathize with the frustration of the chairmen and other members of the Budget Committees

as they try to deal with these horses slipping out of the barn one by one and can appreciate why they chose some of the procedures they have.

Our third procedural proposal is simply not to let the horses out of the barn until we are ready to let them all out together; that is, to withhold enrollment of all appropriations and other spending measures for a fiscal year until action on the second resolution and any reconciliation measure for that fiscal year is completed. Everything would be completed except enrollment. The appropriations and other spending bills would have been through both houses. They would have been through conference. And the conference reports would be agreed to. But they would not yet have taken on the status of enacted law, with all the overtones of finality that conveys to agencies and to the public. In the aggregate, they would constitute the budget, final except for one last step—the second resolution and reconciliation. Think how much more orderly, how much more rational this would be, Mr. Chairman, for the second budget resolution to have been agreed to, for precise changes to have been prescribed in a reconciliation resolution, for the Clerk of the House and the Secretary of the Senate to have made the changes in the spending bills pending enrollment, and then—and only then—for the President to be sent a set of bills which are all in accord with the budget resolution, in total and in detail, and which together constitute the Federal budget.

Now, Mr. Chairman, I should spend a minute or two on what these proposals would not do. S. 1683 would not prevent the President from substituting his proposals for those drafted by committees. When an omnibus reconciliation bill or resolution comes up on the floor, any member could move a substitute and that substitute could readily reflect the President's wishes. And I would like to make another point. While reconciliation would be specifically prohibited in the required first resolution or in a revision thereto, it would be specifically provided for in the second resolution or a revision thereto, it would be specifically provided for in the second resolution or a revision thereto. So you could have, for example, during a two-fiscal year period a revision to the second resolution for that period, could include reconciliation instructions and which could significantly change spending levels for that period. But reconciliation instructions for the next fiscal period and beyond could not be included in such a revision.

III. FEDERAL CREDIT PROGRAMS AND OFF-BUDGET ACTIVITIES

Mr. Chairman, Federal loan guarantees now total around $400 billion. They are of profound significance as instruments through which the will of the people are carried out, and may have profound side effects on the economy, especially on credit markets. Some piecemeal steps have been taken in the past 2 or 3 years to make them more visible, but they have not been brought fully within the discipline of the budget process. Mr. Chairman, there is no justification for that. It is past time for them to be subject to the same scrutiny and the same controls as direct spending decisions. S. 1683 incorporates the proposals of S. 265, sponsored by Senators Percy, Helms and Hatfield which would establish a Federal credit budget.

Off-budget agencies are a similar problem. In the budget proposed by President Carter for fiscal year 1982, budget authority and outlays for off-budget activities were estimated to be $31 billion and $18 billion respectively. In President Reagan's September revisions they are $36 billion and $18.6 billion respectively. Mr. Chairman there may no longer be valid reasons why activities which spend public money to carry out a public purpose should have an "off-budget" status. We have resorted to this technique so often that the outlay and deficit amounts that we talk about are short by $18 billion. Mr. Chairman, this, like some other parts of S. 1683 is really just a "truth-in-budgeting" proposal and should be supported by all Senators.

Mr. Chairman, I need to say something about the language in S. 1683 which refers to off-budget activities. It is a single paragraph on page 39, lines 6 through 13, which refers to "all activities of all departments, establishments, and instrumentalities of the Federal government, except government-sponsored corporations to the extent financed by wholly private funds." It has been suggested, that this language, which seems comprehensive, begs the question because the "off-budget" activities will claim that they are neither departments, nor establishments, nor instrumentalities of the Federal government. It has been suggested further that the remedy is to specifically repeal the sections of existing law that grant off-budget status to particular activities. I agree with the recommendation, and I will be asking the Congressional Research Service and the General Accounting Office to research this area. I will share that information with you when it is completed.

IV. STANDARD BUDGET ACCOUNTS

Mr. Chairman, the Budget and Accounting Act of 1921 requires the President of the United States to submit to the Congress a proposed budget for the next fiscal year. The Act also specifies some of the information to be set forth in the submission. The President's submission has for years been set forth in four books: a brief summary entitled The United States Budget in Brief, a compendium of special analyses entitled Special Analyses, Budget of the United States Government, the actual budget document itself, entitled Budget of the United States Government, and a volume of additional details entitled, Budget of the United States Government, Appendix.

That the budget be presented in the form of these four documents is not required, It is just done that way. The heart of the structure is a table, known as the "Budget Accounts Listing," which, in the fiscal year 1982 budget ran 180 pages (from page 369 through 548) and which contains approximately 1250 separate budget accounts, arranged by agency and bureau, and cross-coded to the 18 Federal functions and the 70 subfunctions.

Nothing in the Budget and Accounting Act requires the President to set forth his proposals in the Budget Accounts Listing, or gives any guidance or imposes any restraints on changes in the Budget Accounts Listing from one year to another. Because it would be a big effort to send up a wholly new structure each year, the Budget Accounts Listing does not change extensively from year to year, but it changes enough to be a source of confusion now that the Congress is involved in the budget process more extensively and with more attention to detail than ever before. Part of the problem is inadequate prior information on the changes which will be in a new budget, so a lot of time is wasted just playing catch-up with the new accounts, with the deleted accounts, with the renumbered accounts, with the new agencies and bureaus, and with accounts that have lost activities to or gained activities from other accounts. All this reduces the time available to deal with substantive issues. We are at risk here in that only the restraint of inertia keeps the volume of changes from rising to a level where it becomes impossible to deal with any questions of substance.

Then the problem is compounded within the Congress because of the individualistic behavior of committees. None seem content to just work with the account structure submitted by the President. Each appropriations subcommittee reports a bill that has a table with its own account structure. As in the case of the President's budget from one year to the next, there is a familial similarity, and many line items which are the same. But there are others that are different. And the Congressional Budget Office, in its five-year projections, has its own account structure. The Senate Budget Committee has developed its own unique "mission" structure, which in some cases is the same as the federal subfunctions and in some cases is not. The authorizing committees in their Views and Estimates Reports to the Budget Committees exhibit great variety. Some include no account detail at all. Some use OMB accounts, some may use CBO accounts. Spending bills reported by authorizing committees seldom, if ever, have budget account detail, thereby making comparisons with even the highly aggregated reports of allocations of budget resolution totals virtually impossible.

The point, Mr. Chairman, is not that any of these structures are wrong or that they don't serve a purpose. Each and every one is, I am sure, pleasing and meaningful to its developers. This is a reflection of the scripture which tells us that the way of a man seems right in his own eyes. The point, the problem, lies in the diversity itself and in the difficulty this adds to tracking through the process and in relating one event to another. Each committee, each office, feels it has an inalienable right to its own structure and everybody else can just conform to their way if they want things to look the same. Confusion reigns supreme. When you reflect on it, it is hard to believe that we try to formulate the budget for our federal government in such a fashion.

The solution we propose has two parts. The first is a new requirement that the President's budget include a Budget Accounts Listing and that before making any changes in the Listing from one release to another, that there be consultation with the Budget Committees, the Appropriations Committees, and the authorizing committees with legislative jurisdiction over the programs funded through the accounts to be changed. Just to get things started I propose that the Budget Accounts Listing in the fiscal year 1982 Budget be used as the base. I imagine that this provision will have to be modified when the fiscal year 1983 budget comes out. We will probably want to make that the base, but right now the 1982 Budget Accounts Listing is the latest one we have. This approach reflects the advice of Thomas Jefferson who

wrote the following comment on the necessity of rules in his Manual of Parliamentary Practice:

"And whether these forms be in all cases the most rational or not is really not of so great importance. It is much more material that there should be a rule to go by than what that rule is; that there may be a uniformity of proceeding . . . not subject to caprice . . ."

The second part of our proposal is even more simple. It is that the Congress be required to use the Budget Accounts Listing set forth in the President's budget. Tables in appropriations bills would have to show the same accounts as the President's budget. CBO projections would have to use them. Reports accompanying the first and second budget resolutions would have to include them, even though these would not be binding but would merely indicate the Budget Committees' assumptions. Views and Estimates Reports would have to include this level of detail, as would reports of the allocations of budget resolution totals. Spending measures reported by authorizing committees would have to include such tables too for the accounts affected by the measures, thus providing a basis for ready comparison between committees' allocation reports and their legislation. This alone could save the Senate hours of floor time by eliminating disputes over whether a level of spending was or was not assumed in the budget resolution and included in the allocations.

Within these constraints the President would be allowed to include new accounts in this budget, without prior consultation, solely for purposes of presenting new programs. This would preserve the prerogatives of the President to protect the confidentiality of his proposals until he is ready to release them. I think that we could live with that amount of surprise quite well. And committees would be allowed to include new accounts for the same purpose, but in this case, some central authority is needed to ensure consistency within the structure. I propose the Congressional Budget Office for this responsibility.

Mr. Chairman, it is hard to overstate the benefits that would flow from our beginning to speak a common language and being able to understand each other. This could be a significant step toward achieving a truly integrated budget decision system, something we can now only pretend to have.

V. COMMITTEE OVERSIGHT

The fifth major part of the S. 1683 is an amendment to Section 136 of the Legislative Reorganization Act of 1946 (as amended by the Legislative Reorganization Act of 1970 and the Congressional Budget and Impoundment Control Act of 1974) which deals with requirements for committees to review programs within their jurisdiction. Section 136 now requires that committees report to their respective houses by March 31 of the first session on their review activities in the preceding Congress. This is too late to be useful to the committees. In S. 1683, the reporting date is moved up to October 1 of the second session so that the results are available at the start of the first session of the next Congress, which is devoted to program reauthorizations. Authorizing committees should be able to use most of the second session for these reviews and to use the reviews in their reauthorization work in the first session of the following Congress.

Also, two new subsections are added. The first is a specific legislature requirement that executive and independent agencies provide assistance to committees in the review of programs, and the second authorizs such agencies to furnish committees with information maintained on computer disks and tapes without charge. This is a critical area, Mr. Chairman, because if the Congress is to be able independently to analyze information from agencies it must have ready access to that information in forms which can be processed on congressional computer systems. Printed matter and oral testimony, which are the present usual ways agencies provide such information, just are not readily susceptible to data analysis. As we further and further into the age of modern data processing, lack of ready access to computerized information in agencies will be more and more like trying to do our work blindfolded and with our hands tied.

This represents a reasonably full description of S. 1683. I believe the bill proposes constructive changes which are sensible and desirable. I urge the Committee to give these proposals careful and serious attention.

Chairman ROTH. Dr. Rivlin? It is a real pleasure to welcome you back here, Alice, again in just a short space of time. We look upon you as one of the real thinkers in this area and look forward to your comments today.

TESTIMONY OF ALICE RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Ms. RIVLIN. Thank you, Mr. Chairman. I am delighted to be here.

I will summarize my statement rather briefly. It is fairly long. I think the main points that I want to make are some of the main points that have come up before the committee already.

First, as the Congress looks at what it has done under the Budget Act this year and in the last 6 years, you should really be very proud of yourselves. It has been a very considerable achievement. The Congress in the last 6 years has for the first time in history debated spending totals and revenue totals and fiscal policy all at the same time, has put those together, and has, for better or worse, made decisions on the budget as a whole. Congressman Bolling's statement before this committee reminded everybody that this is fairly new, that there was a long period, almost 200 years, this did not happen. I think one shouldn't take lightly the achievement of the last 6 years.

Fortunately, I think, the Congress had time to practice this new set of budgetary procedures before the need arose this year to use them to effect the most major changes in the direction of the U.S. Government that have been made in recent memory. This year has seen, for the first time, the enactment of a major multiyear tax bill that cuts the rate of growth of revenues. It has seen the redirection of spending priorities toward a major increase in defense spending and a major cut in the rate of growth of domestic programs. This has been done in a multiyear context. A serious attempt was made to look at the budget of the U.S. Government for 3 years at a time and to map out a program of change that would move that budget in a new direction. This is a major achievement.

I think several lessons can be drawn from working with the Budget Act over the last several years. One is that we have all discovered the enormous inertia of a large mechanism like the U.S. Government. If major changes in priorities are to be made in the Government budget, it is necessary to plan ahead and to have a multiyear program. It is simply not possible in any one year to redirect everything, since a large part of the budget derives from existing law and prior commitments.

Second, I think it is clear that, if major redirection is to take place, the budget process cannot be limited to appropriated moneys. To reshape the budget it is necessary to reexamine entitlements and existing authorizations. This has been done this year, with much pain and difficulty to be sure, but it has been done.

I don't think anybody believes that reconciliation is an optimal way to make changes in existing law. Senator Domenici called it an extraordinary procedure. I believe it should be viewed as that. But when major change is desired in a short time, it seems to me inevitable that the reconciliation procedure be used and that it be used to include authorizations and entitlements, as it was this year.

It wasn't fun. It wasn't fun for anybody. The worm's-eye view from the staffers who did the costing of the reconciliation bill was that there must be a better way to run the Government than this. But it did accomplish a major change in a short time. Since major

change is what we desired, and since it is not yet finished, I think we will be living with this kind of procedure for some time.

A third lesson of the budget process has, I think, been the realization of all by the participants that the first resolution is the most important one and must inevitably be so. In May it is already very late to be making major changes for a budget year that begins in October. If you wait until September, that is really too late.

I think the lesson of working with these procedures has been that—somewhat to the surprise of those of us who looked at the act in its original form and, indeed, worked on its drafting—somewhat to our surprise, we have come to realize that if big decisions are going to be made, they have to be made in the first resolution and not left until the budget year is about to begin or has already begun.

From those lessons flow several suggestions for strengthening the budget process so it can operate to bring about what the Congress wants to do.

First would be to make the first resolution targets both multiyear and binding. I think it is clear that the first resolution is the most important one, provided that multiyear activity is necessary, and that binding decisions should be made in the early part of the process.

I think it also follows that reconciliation belongs in the first resolution. The law, as you know, originally contemplated that reconciliation would be part of the second resolution, not the first one. If one were to have a binding multiyear first resolution with reconciliation included when it was necessary—and one would hope it wasn't always necessary—then the question arises whether a second resolution is really necessary. I think it is not. Obviously, one has to leave room for amending a resolution if circumstances change. But to require a second resolution in September would in most years I think be unnecessary busywork; not enough things change between May and September, one hopes, to require the agony of a second resolution. So I would suggest dispensing with that but keeping the necessary amendment procedures.

Beyond that, Mr. Chairman, there are several other suggestions I would like to make for strengthening the process. The first two have to do with making the process more inclusive and more comprehensive.

First with respect to credit. In the last year the Congress has experimented with an informal credit budget. I think it is time to recognize that the credit activities of the Government are among the most important things the Government does and should be part of the regular budget process. Credit, or Government lending, has risen more rapidly than spending in the past few years, partly because the Budget Act itself has focused attention on the control of spending and has left more room for credit to grow. I think it is time to recognize that credit must be brought together with spending.

I testified in the House yesterday on a bill introduced by Congressman Panetta and Congressman Bethune, similar to the bill introduced by Senator Percy in the Senate, which would make the budget totals on credit binding and would include credit in recon-

ciliation. That seems to us to be a logical next step and a practical one for the budget process.

Second, most budget people feel that to leave much of the credit activity of the Government outside of the budget is simply not good accounting and not good practice. The activities of the Federal Financing Bank, which allow onbudget agencies to lend offbudget, mean that the real deficit of the Government is roughly $20 billion higher than the deficit that appears in the unified budget. It seems to us that those activities should be brought onbudget so that the Congress can look at them and decide whether it really wants those activities to continue.

The solution would not be, I think, to abolish the Federal Financing Bank—it is a useful entity to have—but, rather, to charge the agencies that transact with the bank with the costs of their undertakings. This would increase the visible deficit by around $20 billion. That deficit is there now and has to be financed, so it should be made visible in the budget.

Under the general heading of inclusiveness, I would also urge the Congress to include tax expenditures in a more serious way in the budget process—to have an overall target for tax expenditures, eventually to make those targets binding, and to treat tax expenditures in the same way that regular spending activities and credit activities are treated in the budget.

Finally, there is the question of reducing the number of budgetary decisions that have to be made so as to give everybody a chance to make them better. As Senator Ford has suggested, and as you yourself have suggested, Mr. Chairman, the thing that has struck me more and more in watching the Congress over the last 6 years, is how desperately hard everyone works and yet there is never time to consider as thoroughly as everyone would like the implications of individual budget decisions.

One avenue toward reducing this frantic pace and allowing more time for deliberate decisions would be to put the Government on a biennial budget. I think that the various suggestions before the committee for doing that are very much worthy of study. The authorization, appropriation, and budget process could be put on a 2-year cycle. I think there would be a question of timing. One possibility would be to use the first session of a Congress for oversight and for all of the basic work that goes into making the budgetary decisions, and then to vote the actual budget and appropriations early in the second session.

That does, however, leave the problem that you raised earlier—what about a new President coming in? Is he going to have to wait all that time to make his desires known? One could consider doing it the other way, of having the important votes take place in the first session and then using the second session for oversight. That is one possibility. The other possibility when you have a new President with a major new program—and it doesn't happen all that often—would be simply allow him by some procedure to amend the existing budget. But one would hope that that wouldn't happen too often.

In any case, it seems to me essential for the health of the process that the Congress now think seriously about how to reduce its workload and get onto a longer cycle.

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Finally, Mr. Chairman, let me throw out what I think of as my mega suggestion, which is that the Congress, in the process of revamping the cycle, or perhaps subsequent to it, think seriously about the committee structure, whether it really is sensible to have this duality of authorizing and appropriating or whether it might be better to create a new committee structure in which where a single committee would be responsible for authorizing and appropriating in a particular area, instead of two committees.

Those are my suggestions of the moment, Mr. Chairman. I would be delighted to answer any questions.

Chairman ROTH. Thank you very much, Dr. Rivlin.

As I have already indicated, I am a strong believer that we should try, experiment, if you want to call it that, with a 2-year process. I am not certain which is better as far as the timing, although I do have an innate feeling that every new administration thinks it is going to make significant changes and would be dissatisfied to wait too long into the term to initiate them.

I agree with you, that the second budget resolution is more or less superfluous. I have toyed with the idea of whether or not we should have an omnibus appropriations bill. That conceivably could even be a second budget resolution.

On your question of makeup of committees, I think it is natural, as you yourself have pointed out in some of your written articles, that there is an inherent adversarial relationship between that committee responsible for overall budgetary matters and the individual committees responsible for specific programs.

I have wondered if it would be desirable on our Budget Committee to add to its membership the chairmen and ranking members of the authorizing committees. You have the question of numbers. I won't go into that. This might allow budgetary decisions to be made by the leadership of the House and Senate. Have you given any thought to that approach?

Ms. RIVLIN. Not a great deal, but it is inherent in any budget-making process. There is bound to be tension between the committee charged with making the tradeoffs and those who have particular responsibility. It is the same tension that you have in the executive branch between the agencies and the OMB. There is no way of getting around it.

I feel that this tension is probably healthy and that it is better to allow the authorizing committee chairman to play his role as defender of the set of programs for which he is responsible rather than try to have him play a dual role. It is difficult for anybody to be put in the dual role of being chairman of his own committee while also sitting on the Budget Committee which makes the decisions with respect to how to divide up the pie.

Chairman ROTH. I have one question on reconciliation. There are those who have felt the use of reconciliation has a philosophical bent, that it is something that has been used only by the more conservative members of Congress. But isn't it a fact that reconciliation, which I agree with you should be an unusual vehicle or technique for change, can be used by any new President, whether that President is liberal or conservative?

Ms. RIVLIN. Oh, yes. I don't think there is any particular bias in it.

Chairman ROTH. It is neutral. It is a weapon that anybody can use for whatever goals or objectives.

Ms. RIVLIN. Yes. The point of reconciliation is to bring the ongoing programs into conformity with the budget resolution. It could be a mechanism for increase as well as for decrease. It happens to have been used at a time when decrease was the order of the day.

Chairman ROTH. I don't know whether you were here when Senator Long testified or not.

Ms. RIVLIN. No; I wasn't.

Chairman ROTH. One of the proposals he made is that the economic assumptions upon which we base the budget in our decisionmaking be written into the law and that the whole process continue on those assumptions until Congress itself acts on a different set of assumptions. I think you have agreed that economic forecasting is more of an art than a science. There are, of course, changes from time to time.

But if I understand Senator Long's concern, it is that by changing these forecasts outside the process, we are affecting the whole legislative process. Bills and proposals that were appropriate and proper under the budget suddenly become subject to objection because of the change of assumptions which are made not by the Congress but by staff. Would you see any desirability in Senator Long's proposal?

Ms. RIVLIN. I appreciate Senator Long's and everybody's frustration with the fact that the Congress goes to work on a budget which must be based on some set of economic assumptions. It is the only way that you can figure out what the budget numbers are. And then it takes months inevitably for the Congress to work through this set of budget decisions. In the meantime, the economy has changed and the forecasters are saying it is not like that, it is going to be like something else. This is terribly frustrating. I wish there were a solution to it.

A partial solution would be just to say that once we have adopted the set of economic assumptions, we will not change them until the Congress votes to do so, or until a date specified, one or the other. That is certainly possible. In effect, it is what has happened. At CBO we don't just go around changing economic assumptions when we feel like it. We do it twice a year at the direction of the Budget Committees. We don't do it more often unless the Budget Committees ask us for reestimates. But sometimes they need the reestimates because something really has changed.

I think to declare that the Congress would not recognize, for instance, that a recession had begun and would pretend that it hadn't begun for a substantial period of time would be foolish. I don't think Senator Long is suggesting that. But perhaps a more regular process for saying exactly when the economic assumptions will be changed would be helpful.

Chairman ROTH. Senator Percy.

Senator PERCY. Thank you, Mr. Chairman.

Dr. Rivlin, I would like to first just commend you and the Congressional Budget Office. Several years ago, when Senator Muskie was chairman of the Intergovernmental Relations Subcommittee, and I was the ranking member, we worked together to draw up the Budget Reform Act. In shaping it we had our visions and hopes of

moving Congress toward fiscal discipline. But I really never expected that the Congressional Budget Office would so quickly begin to perform such a tremendous service for the Congress. We needed something to offset OBM. The President had facts and figures and Congress didn't. We had no counterpart. We just didn't have the budget tools to work with.

You have given us those absolutely invaluable tools. You have developed a fine, outstanding professional staff. I would place it on the same level as that of the Comptroller General's Office, which I have always had the highest regard for. In the end I think CBO has commanded very quickly the respect of the executive branch agencies of Government and the White House. I really do commend you very much indeed for your accomplishments and for your own professional standards. I am filled with admiration for you.

Ms. RIVLIN. Thank you. I appreciate that.

Senator PERCY. I know other members of this committee who helped with the Budget Reform Act feel that it has gone beyond our expectations largely because of the drive and energy you have put into it.

I would like to ask you about the comments that you have made on the Federal Lending Oversight and Control Act which I did introduce in the Senate. We have powerful House leadership and over 200 I think cosponsors, aren't there?

Ms. RIVLIN. Yes.

Senator PERCY. Whereas there have been differences of opinion between the Appropriations Committee and the Budget Committee ever since the creation of the Budget Act, here we have on this bill as our principal cosponsors Senators Pete Domenici and Senator Mark Hatfield, Senator Alan Simpson, Senators Proxmire, Helms, and Cohen, all joined together.

We have asked David Stockman about this bill. He said:

> S. 265 is a critical next step in our joint effort to restrict the adverse effects of Federal credit activity on the Nation's economy. If approved by Congress, the oversight policy proposed by S. 265 will be a valuable contribution to the future health of our Nation's economy.

I noticed in your testimony you called my bill the logical next step in increasing congressional control over the Federal credit programs.

Could you respond on two particular points. The bill has two key provisions. It would require, first, the Budget Committee to set goals and ceilings for credit programs and, second, would require the Appropriations Committee to appropriate money for credit programs as part of the appropriations process. Do you support both of these provisions or have any qualms about either one or the other?

Ms. RIVLIN. I support both of those provisions very strongly. As I said in the statement, I think the Congress is ready to take this next step. We in the Congressional Budget Office are ready to help you.

We have already introduced a credit scorekeeping system. We are working on improving our reports on credit. As you know, it is difficult enough to estimate the impact of a spending bill. It is a little bit more difficult to estimate the impact of a lending bill. But we are working on this. We stand ready to help if and when the Congress takes this step. I hope it will be soon.

Senator PERCY. We all know the impact that Federal spending has on interest rates. No matter what Senator Roth or I or every other Member of Congress thought was on people's minds when we went back home for our last recess and the one before that, everyone talked to us about interest rates. It was just the topic that everyone wanted some enlightenment on. Where are interest rates going? What is going to happen? What can we do to bring these interest rates down?

Could you tell us in your judgment what impact present lending practices now have on interest rates and how enactment of S. 265 and its counterpart in the House, would have on interest rates? What likely impact would it have? Would it have any impact at all? Could it eventually have a significant impact?

Ms. RIVLIN. I wish I knew exactly. We have been predicting for some time that interest rates would come down somewhat. I am happy to see that they are coming down a little. But they didn't come down as soon as we or the administration hoped and predicted. So our record as interest rate forecasters is less than perfect, although it is perhaps a little better than the administration's.

However, the main impact of the new ways of looking at credit would be to focus the attention of the Congress on the magnitude of Federal lending and Federal borrowing. These are related. Much of this credit now escapes notice because it is not included in the binding totals of the budget process and is not included in the budget deficit.

If in looking at the credit picture Congress were to reduce the magnitude of Federal involvement in the credit markets, and—both through controlling credit and through controlling spending—to reduce the size of the budget deficit that has to be financed, then I think unquestionably it would take some pressure off interest rates and help to bring them down. It is difficult to say how much, but this is certainly the direction in which things would be expected to move.

Senator PERCY. Would it be possible for you to give us a considered judgment—if so, I would ask unanimous consent that the record be kept open for your reply; I wouldn't ask you now—but a considered judgment as to under what sets of conditions this legislation would have an impact on interest rates? Is there any way to put it in absolute terms that could be understood?

We have a problem of getting priorities for legislation. Senator Baker has committed himself to sponsor legislation and give the highest priority this year to legislation backed by the administration. He said this is the administration's year. We therefore would like to get consideration of this on the fastest track we possibly can. Our debt collection bill is already on that fast track.

The chairman has just cooperated magnificently in giving high priority to those items that we can get enacted this year. But every minute we lose, we are losing in debt collection that would help reduce the deficit.

This bill, if it has a real goal and purpose that will impact on interest costs, ought to be enacted instantly, if we could. Anything you could give us in a concrete way that we could use for argumentation to get a higher priority I know the chairman and I would appreciate very much.

Ms. RIVLIN. We will do what we can.

Senator PERCY. Thank you very much. Thank you, Mr. Chairman.

[The information referred to follows:]

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Alice M. Rivlin
Director

November 17, 1981

Honorable Charles H. Percy
United States Senate
Washington, D.C. 20510

Dear Senator:

During my recent testimony before the Committee on Governmental Affairs on the Congressional budget process, you requested that we estimate, if possible, the impact on interest rates of establishing a federal credit budget, as envisioned by your bill, S.265, the Federal Lending and Oversight Control Act.

If the Congress were to begin explicitly controlling the levels of new federal credit, under procedures such as those in your bill, and began reducing total government credit demand, there is every indication that the financial markets would respond positively and that interest rates would begin to decline. Unfortunately, as I told you during the hearing, we are unable to estimate the magnitude of the impact on interest rates.

Financial markets today are concerned about total federal government borrowing, not just the unified budget deficit. Under the multiyear budget plan of the first concurrent resolution, the unified budget deficit as a percentage of GNP is expected to fall, from about 2 percent of GNP in fiscal year 1981 to about 1 percent by fiscal year 1984. There is a risk, however, that total borrowing by the federal government or under federal auspices will not decline. As the table below illustrates, total federal government borrowing in fiscal year 1982 will probably exceed the projected $65 billion unified budget deficit by a considerable margin. Off-budget borrowing, primarily to fund the Federal Financing Bank's loan activities, will add about $20 billion to Treasury borrowing in 1982. Total direct borrowing by the Treasury is, therefore, expected to reach $80 to $90 billion. The federal government will also directly influence the allocation of another $80 billion in new credit through its loan guarantee programs.

FEDERAL BUDGET DEFICITS AND BORROWING FROM THE PUBLIC (In billions of dollars)

	1982 Estimate
Unified Budget Deficit	65
Off-Budget Deficit	20
Total Deficit	85
Less:	
Means of Financing Other Than Borrowing from the Public a/	1.7
Borrowing from the Public	83.3
New Loan Guarantee Commitments b/	80

a/ Changes in cash balances, checks outstanding, and seigniorage on coins. Estimates from Mid-Session Review of the Budget, July 1981.

b/ Estimates from Office of Management and Budget, July 1981.

The financial markets recognize that federal credit programs have grown more rapidly than direct spending. Loan guarantees and the off-budget lending of the Federal Financing Bank are not included in the binding totals of the budget process. Moreover, until recently, many credit programs have been completely without limits on their levels of annual activity. The credit budgets that the Congress has experimented with in the concurrent budget resolutions this year and last are useful first steps. The totals, however, are not binding; nor are other provisions of the Budget Act, such as reconciliation, directly applicable to the credit budget.

The imposition of a binding federal credit budget, as envisioned in S.265, cannot but help reduce the fears of the financial markets about uncontrolled growth of federal credit. This would reduce upward pressures on interest rates, but we do not know how much.

If I may be of further assistance in this regard, please call on me.

Sincerely,

Alice M. Rivlin
Director

Chairman ROTH. Thank you, Senator Percy. I agree with you as to the importance of your legislation and the need to expedite it.

Senator PERCY. Mr. Chairman, I had one other area, if I might. I am not sure you would want to discuss it now with us, but it is such an openly discussed issue. We did have in this committee opposition to the Budget Reform Act of 1974 from members of the Appropriations Committee, on both sides of the aisle. They really felt it would invade their turf. I can understand. I served on the Appropriations Committee for a period of time. But Congress felt the overriding good of budget management was desirable.

Is there any way that you could on the public record indicate the existence of concern between the jurisdiction of the Budget Committee and the Appropriations Committee? Is it just inevitable that there is competition there, and maybe the competition is good? Is there anything we can do to better understand the nature of the problem, and is it a liability? We have listed a lot of the assets of the budget process. Are there continuing liabilities?

Ms. RIVLIN. I am afraid that the competition or the tension is probably inevitable. Frankly, I have been surprised that it has gone as well as it has, especially this year. I think it is greatly to the credit of the leadership of both Houses that they have managed to work out some of this tension without its erupting into open warfare, although there has been a bit of open warfare, too—not so much this year as in prior years.

I think that, if you are going to have a Budget Committee charged with doing what the Budget Committee has to do, which is to recommend to their colleagues how their competing claims should fit into a constrained total, then that committee is inevitably going to have tension with other committees. There is not much you can do but live with it as cheerfully as possible.

Senator PERCY. Thank you very kindly.

Chairman ROTH. As you know, Dr. Rivlin, one of the continuing complaints is that the budget resolution and the Budget Committee get into too many specifics and that this is where the infringement on the jurisdiction of the various authorizing, appropriating and finance committees occurs.

The suggestion has been made, for example—I think by Mr. Whitten on the House side—that perhaps our budget resolution should deal with percentages of budget. In any event, whether you use the technique Mr. Whitten has discussed or not, do you feel that it would help if the budget resolution would just provide overall sums and not get into specifics? You heard Senator Stevens, for example, say that the Budget Committee is now deciding how many claims or what kind, and so forth. Wouldn't it be possibly better for the Budget Committee to say well, you have so much for defense, but how you spend that money for defense should really be a question for the authorizing committee, Armed Services, and the Appropriations Committee?

Ms. RIVLIN. I believe that is how it is now, Mr. Chairman. The resolution controls are on the functional total. The problem is in arriving at a specific amount for defense. The Budget Committee has to have something to go on, so you can't just say in the abstract how much we need for defense, because the next question of course is what are you going to spend it for.

The decision on how much to spend for defense inevitably gets into a discussion of defense policy, not in a very fine level of detail but certainly at the level of major decisions on strategic weapons and conventional forces. However, that is only the process that the Budget Committee internally goes through in order to get a number. Once the number is there, it does not bind the other committees, either Armed Services or Defense Appropriations, in deciding how that money be spent.

I don't think there is a real problem of dictation by the Budget Committees here because while these numbers may appear in the debate, they do not have any force. The particular internal decisions are without force of law.

Chairman ROTH. I think that that is probably true today. There was a time, I know, as a member of the Finance Committee, that there was at least a feeling within the Finance Committee that there was an effort on the part of members of the Budget Committee to direct how we achieved those goals. I must say, as far as I can tell this year, that was not true. Obviously you are right, you have to arrive at your target somehow. You can't just pick figures out of the air.

We have a vote. I had wanted to get into another area. Here in the Congress we require restraint on the people back home and the executive branch. There has been, as you know, a great deal of criticism about the Congress and how it has expanded.

One of the things I want to explore, when we have more time, is the relationship between CBO and some of the other committees. To what extent do we have duplication? Just let me give you one illustration of what I am saying.

As a member of the Finance Committee, I know that there has been some criticism in the past that CBO is making studies that were more properly within the realm of the Finance Committee or the Joint Tax Committee. I am not passing judgment on whether that is true or not. I do understand that CBO takes a much broader look than the individual committees. Clearly, there is some merit in having those responsible for the overall performance of the budget to take an independent look from the authorizing committees.

I also am concerned that you tend to have on your authorizing committees those who are most interested in that activity, whether it is Armed Services, Agriculture, or Commerce. It makes no difference. So, you do need an independent look at the budget.

But I would like, down the road, to discuss with you, perhaps through a hearing or maybe just informally, the way the legislative branch of the Government has grown and how can we make it more efficient and effective and where we can make savings. I would urge you to give some thought to that.

Ms. RIVLIN. I would be delighted to discuss that with you. We do meet periodically with the Comptroller General and with the Congressional Research Service and the Office of Technology Assessment to make sure that we are using our joint resources effectively and are not duplicating.

Let me just say that CBO doesn't do studies on its own. It only does things at the request of a committee, including the Finance Committee particularly.

I would be delighted to discuss this at greater length at some other time.

Chairman ROTH. I am much encouraged in these hearings that there seems to be a consensus developing as to what the next step should be. I think that step is a 2-year cycle. Again, informally, I would like to discuss some of the details as to how we should proceed.

Ms. RIVLIN. Fine.

Chairman ROTH. Thank you very much for being with us today.

Ms. RIVLIN. Thank you, Mr. Chairman.

Chairman ROTH. The committee will be temporarily in recess. Representative Panetta is on his way. In about 10 minutes we will resume.

[Dr. Rivlin's prepared statement follows:]

PREPARED STATEMENT OF ALICE M. RIVLIN

Mr. Chairman, I am pleased to appear before this Committee to discuss the experience of the last seven years under the procedures of the Congressional Budget and Impoundment Control Act of 1974. The federal budget has been the dominant issue facing the Congress both this year and last, and the budget process has been stretched and expanded in new ways. Members of Congress, Congressional staff, and the Congressional Budget Office have all labored long and hard to produce budget resolutions, reconciliation bills, and a tax bill. We at CBO have been particularly hard pressed this year, having to analyze budget proposals from two different administrations and to prepare hundreds of cost estimates to support the reconciliation process, as well as carrying out our normal activities in support of the Budget, Appropriations, and authorizing committees.

The prospects for the next several years are for more of the same intense "budgeting" that the Congress has had to face this year. Reconciliation, painful and arduous as it is, is likely to be necessary if the Congress is to achieve the reordering of priorities envisioned in its budgetary plans. Thus, now is a good time to examine the budget process and to consider ways in which it might be strengthened and improved.

The first part of my statement this morning describes the experience under the Budget Act, lessons learned from that experience, and possible changes the Congress may wish to consider.

Then I shall discuss possible ways of further strengthening the process by extending its coverage to off-budget forms of federal activity, and by reducing the number of budgetary decisions the Congress must make each year.

EXPERIENCE UNDER THE BUDGET ACT

Counting the dry run conducted in 1975, the Congress has seven times used the procedures of the Congressional Budget Act of 1974 to shape the budget of the federal government for a fiscal year. In each case the Congress has demonstrated that it can make decisions about fiscal policy and the size of the federal budget.

- The Congress has set aggregate targets and ceilings for expenditures and revenues, and functional targets for spending;
- It has lived within those targets and ceilings, or has adjusted them, as necessary, to changing economic conditions or policies; and
- It has established a fiscal policy goal and shaped individual spending and revenue decisions in light of that goal.

This year and last, however, have witnessed a maturing, or coming of age, of the budget process: the Congress, using the inherent

flexibility of the Budget Act, has planned for and implemented major changes in the relative priorities of spending programs and the overall magnitudes of both spending and revenues. The results have been dramatic.

In 1980, in its First Concurrent Resolution on the Budget for Fiscal Year 1981, the Congress prepared a plan for a balanced budget, to be achieved not only by cuts in appropriations but also through reductions in spending under mandatory programs and through increases in revenue from the elimination or reduction of tax expenditures. To accomplish the reductions in direct spending and tax expenditures, the Congress added to the first concurrent resolution the hitherto untried reconciliation procedures established by the Budget Act as part of the second concurrent resolution. Although the planned balanced budget for fiscal year 1981 was ultimately frustrated by the economic downturn during 1980, the Congress did achieve a reduction in the deficit of about $8 billion through the reconciliation process.

The spending targets in this year's First Concurrent Resolution on the Budget for Fiscal Year 1982 reduce sharply the growth of total federal budget outlays while at the same time significantly increasing the relative share of the budget allocated to national defense. The revenue targets assume a three-year cut in both personal and business taxes.

Again this year the Congress has used reconciliation as the tool for implementing changes in spending priorities, only on a much larger scale--reducing nondefense spending by $35 billion in 1982. In addition, reconciliation this year differed from last year in that the reconciliation instructions were extended to cover authorizations as well as mandatory spending programs. Furthermore, the reconciliation instructions contained savings targets for fiscal years 1983 and 1984, enhancing the effectiveness of the multiyear targets contained in the first resolution.

Lessons Learned

What are the lessons that have been learned from the experience of the last seven years under the Budget Act?

First and foremost, the tremendous inertia of the federal budget makes it very difficult to effect major changes in the composition or size of the federal budget in any one year. More than 75 percent of the federal spending for any fiscal year is mandatory under existing law, or results from decisions made in previous years. This is not undesirable; it means, however, that the Congress needs ample lead time to accomplish any major reordering of budget priorities. Thus, if the Congress wishes to balance the budget by 1984, it will have to use multiyear budget targets. This year's and last year's experience with multiyear budget targets has demonstrated their importance.

The second lesson that has been learned in the last seven years is that major changes in the composition of budget spending cannot be accomplished solely through changes in the portion of the budget requiring current Congressional action, mainly the appropriations bills. Some method, such as reconciliation, is needed to change authorizations and entitlements.

After the experience of this year and last, no doubt everyone would agree that reconciliation is not the best way to write legislation. Unfortunately, however, the Congress will continue to face in the years ahead the need to make changes in the levels of mandatory spending programs. Reconciliation is very likely to remain a necessary, though unpleasant, part of the budget process for the next few years.

The third lesson of the last several years' experience is that the first resolution has become the more important of the two concurrent resolutions on the budget required each year. The major budgetary issues facing the Congress each year must be hammered out in the first resolution. By the time the second concurrent resolution is considered, the Congress is much too close to (if indeed, not past) the start of the fiscal year to decide any important questions. Thus reconciliation must be part of the first resolution; May 15th is already very late to start considering

changes to substantive law effective for the next fiscal year, and it is even more difficult to envision such changes being made after the second resolution.

Strengthening the Budget Process

Based on these lessons learned from seven years' experience under the Budget Act, I draw two conclusions with respect to changes that might be made in the process. First, the preeminence of the first concurrent resolution on the budget each year should be explicitly recognized by making its targets binding. Second, multiyear budgeting should be made a permanent part of the process.

Making the first concurrent resolution binding would recognize that the statutory timing of the second concurrent resolution is too soon after the first for the economic situation to have changed dramatically and too late before the start of the fiscal year to be making important policy decisions. Other changes that logically derive from a binding first resolution would be to make reconciliation a permanent part of the first resolution and to eliminate the requirement for a second concurrent resolution each year. The experience with the reconciliation process to date demonstrates that it takes time, and that this time is not available after the second resolution. Furthermore, making the first budget resolution binding would eliminate the need for a second

resolution unless significant changes occurred in the economic outlook or unforeseen needs arose for legislative action. If the second resolution proved unnecessary, a considerable amount of time and work could be saved.

Making multiyear budget targets a permanent part of the budget process would recognize their evident importance. Moreover, the added credibility of binding multiyear targets, in the light of the severe budgetary problems the Congress faces in the next several years, might encourage Congressional committees to undertake a restructuring of their programs to avoid being forced to make wholesale changes helter-skelter during reconciliation.

EXTENDING THE COVERAGE OF THE BUDGET PROCESS

As a tool for examining federal policies on the allocation of resources within the economy, the budget process today is quite limited. It focuses almost exclusively on direct spending by the federal government. One of the most important steps the Congress could take to strengthen the budget process would be to incorporate into the process two other forms of federal resource allocation: credit programs and tax expenditures.

$300 Billion of Resources

Through its direct loan and loan guarantee programs, the federal government allocates enormous amounts of credit in our

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economy--$121.5 billion in 1980, for instance. The federal government also influences investment decisions and resource allocation through its tax policies, particularly through tax expenditures. Tax expenditures are revenue losses that arise from provisions of the tax code that give special or selective tax relief to certain groups of taxpayers, either to encourage some desired activity or to provide special aid. The revenue forgone in 1980 from tax expenditures totaled $181.5 billion. Together these two forms of federal activity accounted for over $300 billion in resources in 1980, an amount equal to over half of the government's direct spending. The federal influence on resource allocation through its credit programs and tax policies may be as important, if not more important than its direct spending programs, because the investment of productive resources is being more directly affected.

Not only is the total volume of resources allocated through credit programs and tax expenditures large, but it is also growing more rapidly than direct spending. The revenue forgone through tax expenditures totaled $43.9 billion in 1970; by 1980 it had more than quadrupled, to $181.5 billion. In 1970 new extensions of credit by the federal government totaled $38.1 billion; ten years later that total had more than tripled, to $121.5 billion. In contrast, direct spending by the federal government grew from $196.6 billion in 1970 to $579.6 billion in 1980, not quite tripling over the decade.

In some areas of federal activity, the allocation of resources through credit programs and tax expenditures can be far more important than direct spending activities. For instance, direct expenditures in support of housing or homeownership are relatively small each year: some $4.0 billion, or less than 1 percent of spending in 1980. In contrast, housing credit extended by the federal government that year totaled $44.8 billion and tax expenditures encouraging homeownership and housing production resulted in a revenue loss of $22.5 billion.

Thus, federal credit programs and tax expenditures are far too important to be left out of the budget process. Let me briefly describe steps the Congress might take to incorporate these activities into the process.

Credit Budgeting

The rapid growth of federal credit and the change in the mix of credit programs from actuarially sound insurance programs to subsidized credit programs and loans and guarantees to discrete ventures means that the risk and costs associated with the government's credit activities are increasing rapidly. Traditional budgetary techniques, with their focus on direct spending and taxing, are unable to control credit program levels, particularly for off-budget direct loans and loan guarantees. Consequently, the increases in the aggregate level of resources being allocated

by the federal government through loans and guarantees--and of the potential costs of these activities--have occurred without any explicit decisions by the Congress that they should occur.

CBO has recommended that the Congress proceed to implement a credit budget immediately. The credit budget will help the Congress be informed about the aggregate level of federal credit for a fiscal year and provide a framework permitting the Congress to begin making decisions about that level and about the allocation of credit among competing needs.

The Congress has already taken some steps toward a credit budget. The first and second concurrent resolutions on the budget for fiscal year 1981 contained aggregate targets for new direct loan and loan guarantee commitments by the federal government. In addition, limitations on the levels of individual programs were included in the appropriations language for many agencies. This year's first concurrent resolution for 1982 contained functional as well as aggregate targets for new credit extensions, and again individual programs are being limited through appropriations.

After experimenting with credit budgeting this year and last, I believe the Congress is ready to move to the next step: making the credit budget an explicit and binding part of the budget process. S.265, introduced by Senator Percy, and H.R. 2372, sponsored by Congressmen Mineta and Bethune, appear to be appropriate vehicles to that end. I testified yesterday before the

House Budget Committee's Task Force on the Budget Process on H.R. 2372. Attached to my statement this morning is a copy of my prepared statement for that hearing.

Toward A Tax Expenditures Budget

Just as the Congress has experimented with a credit budget for two years, I would urge that the Congress experiment with a "tax expenditures budget." Steps short of amendments to the Budget Act could be taken to incorporate tax expenditures into the budget process next spring. For example, the resolution might include just a target for tax expenditures, leaving for future years the implementation of binding ceilings and point-of-order provisions. The target could be limited to total tax expenditures, or it could be broken down by functional categories. It is also possible under the existing Budget Act to trade off selected new tax expenditures against new direct expenditures by allowing only enough room in the budget resolution to take one route or the other, but not both. As more experience is gained, binding ceilings could be imposed on tax expenditures, perhaps starting only with limits on new or expanded tax expenditures.

REDUCING THE NUMBER OF BUDGETARY DECISIONS

The procedures of the budget process today force Members of Congress to make so many budgetary decisions each year that they cannot possibly take time to make them in light of thorough review

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and informed debate. The process could be dramatically improved by drastically reducing the numbers and frequency of budget decisions that must be made each year.

Currently, for many programs, the Congress must each year debate and pass an authorization bill, set an appropriation level in an appropriations bill, and make provisions for the activity in the concurrent budget resolutions. In addition, this year and last, the Congress may also have had to make decisions about the program or activity as part of the reconciliation process. The results of these multiple, annual actions are a crowded Congressional calendar and delays in the passage of key budgetary legislation. Authorizations are not enacted before appropriations bills must be brought up; the appropriations bills do not get enacted before the start of the fiscal year; and indeed, the Congress barely finishes the budget for one fiscal year before it is forced to begin consideration of the budget for the next year.

It is not clear that a thorough annual review of all federal programs would be desirable even if it were possible. It is hard to think of examples of activities that really need thorough reexamination and redirection each year. Too frequent changes can be counterproductive. Transfer payments need to be predictable, so that people's lives are not disrupted. Military capability suffers if signals change too often. Procurement costs can go up, not

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down, if production lines are alternately speeded up, slowed down, or even halted pending Congressional action. In grant programs, frequent changes and uncertainty of funding are costly and disruptive to the recipients, primarily state and local governments. Indeed, almost all programs would work better if authorizations and appropriations were enacted for several years at a time. About the only exceptions are disaster assistance, military contingencies, or countercyclical programs where triggering mechanisms are not appropriate.

One alternative to the overcrowded calendar of the annual process would be to move to a biennial budget. I have long believed that authorizations for federal activities should be for a minimum of two, and preferably three or more years. In addition, appropriations for most federal activities could also be placed on a cycle of at least two years' length. Furthermore, there are no technical obstacles to setting spending ceilings and revenue floors for a two-year period in a budget resolution.

One can imagine a dramatically different Congressional calendar under these changes. In the first session of any term, the Congress could adopt a budget resolution, authorizations, and appropriations for two fiscal years. During the second session Congressional committees would be free to conduct oversight of authorizations and supplementals, or revisions to authorizations or

budget resolutions as necessary. The next Congress, considering reauthorizations and appropriations durings its first session, would then be able to take advantage of the groundwork done by the previous Congress. It would be free, of course, to revise the budget handed on to it by the previous Congress.

CONCLUSION

In the last two years the Congress has dramatically improved its ability to make decisions about the federal budget. The task of "budgeting" in the next several years will continue, however, to be as arduous as it has been in the last two. With that in mind, the Congress should seriously consider steps to reduce the number of budgetary decisions the Congress must face each year. The Congress should also consider taking steps to improve the consideration of credit programs and tax expenditures in the budget process, so that the Congress will better be able to influence the direction of all forms of federal resource allocation.

One of the virtues of the Budget Act is its flexibility. The Congress may "try out" or experiment with new procedures prior to changing Congressional rules or federal statutes. In this fashion, the Congress has already experimented with reconciliation, multiyear budgeting, and a credit budget in the budget resolutions for fiscal years 1981 and 1982. My point is that, while one might want to amend the Budget Act eventually, most of the suggestions I have made today—including reducing the number of annual budget decisions—can be tried out by the Congress without changes in that law. After several years of experience, if the results are satisfactory, then the law could be amended to institutionalize the new practices.

Attachment to Statement of Alice M. Rivlin
before the Committee on Governmental Affairs,
October 29, 1981

STATEMENT BY ALICE M. RIVLIN
DIRECTOR
CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, I am pleased to appear before this Task Force to discuss credit budgeting and endorse the Federal Lending Oversight and Control Act, introduced by you and Congressman Bethune. Your bill would make credit budgeting an integral part of the Congressional budget process, enabling the Congress for the first time to control the total level of federal credit activities. After almost two years of experience with an informal credit budget, I believe the Congress is ready to take this important step.

My testimony today covers four areas:

- o The recent growth of federal credit and its probable impact on credit markets and the economy, noting the relationship between this growth and inadequacies in the present budget treatment of credit;
- o The progress of Congressional efforts to improve credit budgeting;
- o The improvements in credit budgeting contained in the Mineta-Bethune Bill; and
- o Additional steps needed to correct remaining problems.

GROWTH IN FEDERAL CREDIT ACTIVITIES: CAUSES AND EFFECTS

In the last decade and particularly during the past six years, federal credit programs--direct loans and loan guarantees--have been growing faster than direct spending programs. Since 1976 federal credit has grown at a rate of 27 percent per year, thus doubling in less than three years. By contrast, during the same years budget outlays rose at a rate of about 12

percent annually. Consequently, credit programs account for an increasing proportion of all federal financial assistance. As of fiscal year 1980, one of every eight dollars extended by federal agencies was in the form of a direct loan or loan guarantee. The volume of loans and loan guarantees outstanding had climbed to $462 billion, a figure two-thirds as large as the federal debt in 1980.

During these years, the types of activities funded through credit programs have also increased. Programs have been developed in new areas: synthetic fuels commercialization and aid to large individual ventures, such as New York City and the Chrysler Corporation. At the same time, programs in the traditional areas have continued to expand and diversify: housing, agriculture, business assistance, and international development.

Although the reasons for the surge in federal credit during the 1970s are not fully understood, several contributing factors deserve special notice. First, the largest share of guaranteed loans, and an important portion of direct loans, serve the housing market. The lack of available private mortgage funds in recent years has created greater demand for federally assisted funding, and spiraling housing prices have necessitated large loans and guarantees. These factors have resulted in an increase in the single largest credit program—FHA mortgage insurance—from $2.3 billion in net guarantees in fiscal year 1976 to $14.4 billion in 1980.

Second, increasing market interest rates in recent years have opened a large gap between the interest rates offered by many fixed-rate federal loan programs and those available to borrowers through private institutions. This

has increased demand for federal low-interest loans, which are now heavily subsidized. Some of this increased demand probably has been accommodated by higher program levels. This is certainly a factor in the explosion of the Guaranteed Student Loan Program, with interest rates at 7 percent until 1980 and open-ended eligibility.

Two other factors in the growth of federal credit relate to changes in its budget treatment. In 1974 the Federal Financing Bank (FFB) began operations, allowing some budget agencies to transform their on-budget direct loans into off-budget loans and others to transform guaranteed loans into off-budget direct loans. This opportunity to lend federal funds without adding to budget costs may certainly have encouraged higher lending levels for those programs able to use the FFB.

Also in 1974, the Congressional Budget Act was passed. This act placed tighter controls on Congressional action on all forms of federal spending with the exception of loan guarantees, which were specifically excluded from its coverage. The change in severity of controls over direct spending relative to loan guarantees may have encouraged an increasing use of the guarantee mechanism. Undoubtedly, the lower budget visibility of credit programs contributed substantially to the spurt in federal credit.

Federal Credit in Capital Markets

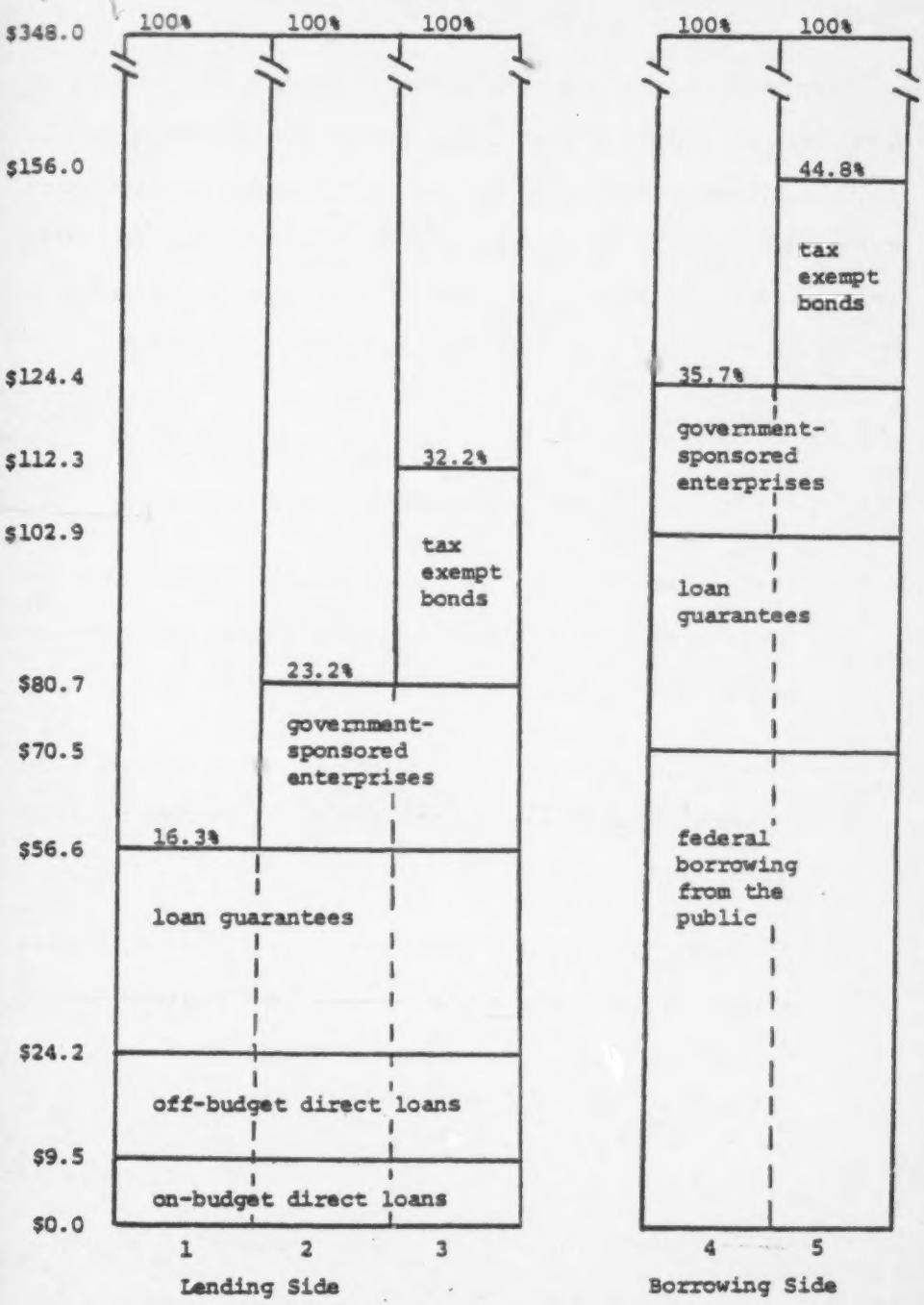
The federal government is now making heavy demands on credit markets in several ways—direct loan and loan guarantee programs, borrowing by government-sponsored enterprises, bonds for local industrial

and housing development subsidized through federal tax exemption, and, of course, financing the budget deficit. The attached figure shows the size of these forms of borrowing relative to total funds raised in domestic credit markets. In fiscal year 1980, the year of the most recent available figures, these activities absorbed 45 percent of total credit in the nation's capital markets (see column five of Figure 1). With such high federal demands on capital markets, the possibility exists that a large amount of private credit can be "crowded out." Risk-free, federally assisted credit is given first preference in the queue for the relatively inelastic supply of funds in credit markets. The high volume of new federally assisted borrowing may also contribute to the sustained high interest rates we are now experiencing.

Among the varieties of federally assisted credit, direct loans and loan guarantees, which account for 16 percent of all funds advanced in the economy (see column one of Figure 1), merit our attention for two reasons.

First, many of the loans are heavily subsidized. Subsidized credit displaces private credit that would have been spent on activities considered more profitable by market standards. If this were not so, the market would have allocated credit to the federally favored uses without federal intervention. By diverting resources from more to less productive uses, subsidized credit programs can reduce the efficiency of the nation's capital stock. And because increases in overall productivity depend on the effective use of capital, subsidized credit may retard national productivity growth. In particular cases, the benefits of subsidized credit programs may

FIGURE 1. FEDERAL PARTICIPATION IN DOMESTIC CREDIT MARKETS, FISCAL YEAR 1980 (Expressed as percent of total funds in credit markets, dollars in billions)



Source: Budget of the U.S. Government for Fiscal Year 1982, Special Analysis on Federal Credit Programs.

well outweigh the costs. Nevertheless, the potentially large economic costs of federal credit activities call for continuous review and assessment by the Congress.

Second, the failure to account fully for credit programs in the budget gives them an inappropriate advantage over direct spending programs. Improved budgetary oversight of loan and loan guarantee programs could enable the Congress to monitor their use and growth in a way that would consider federal priorities as well as the needs of national credit markets. Fortunately, better control of these programs is now within our reach.

THE CREDIT BUDGET

Three principles form the foundation of good credit budgeting:

- Congressional Control. The budget process should enable the Congress to make informed choices specifying both individual program levels and the volume of total credit activities.

- Comprehensive Coverage. The budget and budget process should include all forms of federal financial activity. Nothing should be hidden.

- Accuracy of Information. The budget should present the Congress and the public with information about all federal programs which is clear, accurate, and includes measures of both volume of activity and long-run costs.

Until 1980, the following deficiencies in the budget treatment of credit violated all of these fundamental goals of good budgeting:

- Many credit programs were not given annual directives on the level at which they could operate.
- Direct loans were counted in the budget only net of repayments, a practice that obscured the actual volume of activities for many programs.
- Off-budget direct loans were--and are--excluded from budget totals. These loans create an unrecognized federal deficit, which is expected to add $18 billion to federal borrowing in 1982.
- The budget totals and the Congressional budget process explicitly excluded loan guarantees.

Not only did the budget understate the costs to the government; it virtually ignored the perhaps even greater costs to the economy at large. The inadequate treatment of federal credit contributed to a perception of credit as close to a free good, and enabled many programs to grow without explicit Congressional approval.

Beginning with the fiscal year 1981 budget, the Congress and the Administration have adopted an informal credit budget that functions in tandem with the unified budget to enhance control of total direct loan and loan guarantee levels in all credit programs. This credit budget has two major components: inclusion of credit targets in the concurrent resolutions on the budget and annual limitations on gross activity levels for credit programs in appropriations bills.

In terms of the three budgeting objectives discussed above, the most significant achievement of the new approach has been the annual limitations applied to many credit programs for the first time. This represents a step forward in Congressional control. The budget resolution credit targets have improved Congressional and public understanding of the overall volume of federal credit and its claim on the financial resources of the economy. In its present form, however, the credit budget cannot improve control or budget process coverage of credit totals. In 1981, the first year of the credit budget, federal credit was 20 percent higher than in 1980, according to preliminary estimates.

The two years of experience with the informal credit budget can serve, however, as a prelude to the improved oversight and coverage offered by the Mineta-Bethune Bill. General awareness and supporting services now have been developed sufficiently so that an official credit budget would be easy to implement. For example, in this year's first concurrent resolution, credit targets were voted by function and included targets for the Federal Financing Bank.

The two Budget Committees and the Congressional Budget Office have the capability to monitor action on credit programs at each stage of the authorization and appropriation process. CBO has developed an automated credit scorekeeping system that can compare Congressional action on credit program bills against the functional targets established in the concurrent resolutions. This system has been used this year by the House Budget Committee in its early warning memoranda on bills likely to exceed

resolution targets. CBO will shortly begin to issue credit budget statements as a part of all cost estimates for bills affecting loan or guarantee programs. We are also developing the ability to make independent five-year projections and reestimates for the credit budget as we now do for the unified budget.

THE FEDERAL LENDING OVERSIGHT AND CONTROL ACT

The Mineta-Bethune bill is the logical next step in increasing Congressional control over federal credit programs. The bill would subject credit bills to points of order if their totals violated credit budget aggregates. It would also allow reconciliation instructions to be written for the credit budget. The bill would accomplish the following objectives:

- It would make credit totals enforceable. The Congress could decide how much federal credit should be allocated through loans and guarantees, and know it would stay within the set limits.

- It would further enhance control over levels of individual programs.

- It would bring loan guarantees into the budget process officially for the first time.

- It would provide a means for controlling off-budget lending, if the Congress wished to use it. Binding levels could be set in the second resolution for off-budget loans or for Federal Financing Bank activity.

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Each of these new provisions would contribute importantly towards making the budget process a more effective vehicle. They would eliminate the current budgetary advantage of credit programs over direct spending and give the Congress explicit control over aggregate credit levels. If this bill is acted on expeditiously, the Congress could have this system in place when it considers the fiscal year 1983 budget.

The credit budget bill also would help provide a framework within which the Congress could consider the appropriate level and allocation of credit among the many programs competing for limited federal resources. Making these decisions would not be easy, especially without concrete information about the economic costs of credit programs. But neither was it easy to decide the total level of federal spending and revenues in the concurrent budget resolutions when they were first introduced in 1975 and 1976. Nor is it easy today. Our understanding of the economic effects of spending and tax proposals is not as complete as we would like it to be, and the Congress would face even greater uncertainties in debate over credit levels. But only binding Congressional action on aggregate credit levels can create the attention needed to inspire the research that will improve understanding.

REMAINING PROBLEMS

As important an advance as the Mineta-Bethune bill is, it does not completely solve the inadequacies in the budget treatment of credit I described earlier. There are further improvements not yet ripe for

implementation. I will not go into the need for better program standards and administration, such as default reserve requirements. That is a topic for another day. The three issues I want to raise now concern the budget and budget process on a more general level.

Off-Budget Lending. Most importantly, the problem of off-budget lending remains, with its distorting effect on the budget deficit. Because the Federal Financing Bank comprises over 90 percent of off-budget outlays, the distinction between on- and off-budget credit activities is not one of substance. The bank, in fact, acts as an off-budget lender for on-budget agencies. By purchasing loans and certificates of beneficial ownership (pools of loans called CBOs) from on-budget agencies, the FFB transfers on-budget loans to off-budget status. The FFB also acts as a primary lender at the request of various on-budget federal agencies. The FFB will make a direct loan to the borrower, at interest rates only marginally above the cost of Treasury borrowing, whenever an agency guarantees the full repayment of interest and principal in the event of default by a borrower.

The distinction between on- and off-budget credit programs is thus virtually meaningless--except with respect to the unified budget deficit. Although the Congress currently exercises no control over the timing or amounts of off-budget financing of direct loans by the FFB, it cannot escape its consequences. The ceilings on the public debt must be increased for each dollar of net lending by the FFB. Even with a balanced budget, the public debt ceiling would still have to be increased because of the FFB's off-budget lending.

Under the Mineta-Bethune bill, agencies could continue to use the FFB to hide billions of dollars in federal funds they administer in the nether world of off-budget rather than declare them openly in their own on-budget accounts. The most satisfactory solution to this problem would require agencies initiating FFB transactions to keep the resulting outlays on their own books. Adopting any such change would increase the unified budget totals and deficit by the amount of FFB lending. This would not alter the actual state of federal finances, but rather would reflect that state more accurately. CBO will soon publish a paper examining the FFB question in greater depth.

Impoundment Control. Another remaining budget problem is the lack of impoundment control for loan guarantees. As now drafted, the Mineta-Bethune bill would not prohibit the Executive Branch from withholding guarantees without prior Congressional approval. The current Administration is proposing to decrease loan guarantee programs solely through executive action, which it can do despite Congressional action setting upper limits for many of the programs. To correct this weakness in Congressional control, the definition of budget authority in the Budget Act could be revised to include loan guarantees. If this presented problems, a new kind of authority—loan guarantee authority—could be created instead and subjected to the Budget Act's impoundment control provisions.

Budget Restructuring. Finally, let me describe a long-run, idealized solution to credit budget problems. If we were to start afresh and devise a budget that would accurately report the nature of federal financial transactions, the following picture might emerge. The three types of aid

extended by federal agencies would be recorded separately and completely: direct spending, direct loans, and loan guarantees. On the revenue side, each of these would be matched against its source of offsets: taxes, loan repayments, and expiring guarantees. Attention would be directed not towards one budget deficit of ambiguous interpretation, but towards two or more clear-cut measures—deficit spending and net credit extensions being the most important. If the budget were restructured along these lines, our three budgeting objectives would essentially be fulfilled:

- Congressional Control. Under the present system action on credit programs occurs both in the unified and credit budgets, though in different forms. Restructuring the budget would focus all attention on credit in one place.

- Comprehensive Coverage. Restructuring the budget would solve the off-budget problem, and would do so without creating one large off-budget deficit.

- Accuracy of Information. All measures relevant to credit program evaluation would be displayed clearly: gross activity, net additions to outstanding credit, and expected direct costs.

Restructuring the budget would not require a change in law, but rather agreement between the Congress and the Administration on budget concepts. A study commission similar to the 1967 Budget Concepts Commission would probably be the best way to accomplish the task. Such a commission could also examine other issues in the budget process. Tax expenditures immediately come to mind.

The reforms covered in the Mineta-Bethune bill are important steps, ones that the Congress is sufficiently prepared to take now. In fact, the process the Congress has been following to improve credit budgeting could serve as a model for pursuit of other budget reforms.

Chairman ROTH. Mr. Panetta, it is a real pleasure to welcome you. I find as usual the House and Senate never cooperates in helping to promote orderly hearings. But we are delighted to have you.

I, as one Senator, would like to say how much I admire and respect the work you have done in this area. I am confident that any meaningful reform will come about in large part through your leadership. We are delighted to have you.

TESTIMONY OF HON. LEON E. PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Representative PANETTA. Mr. Chairman, thank you very much. It is a pleasure, really, to have this opportunity to testify, and I want to thank you for taking the time to look into the issue of reconciliation. I think it has become a major legislative tool that needs to be looked at, questioned, and reformed, if necessary, and has become so important, I think, to the basic operations of the Congress these days that we ought not to let this time pass without questioning whether we are heading in the right direction.

First of all, I would like to submit my testimony for the record, if I might. I will try to summarize it in certain places.

I have been chairman of the reconciliation task force on the House side for the last 2 years, 1980 and 1981. Prior to that I was chairman of what was called the legislative savings task force. A few years ago when I first got on the Budget Committee I went to Bob Giaimo, who was chairman of the committee, and suggested that year-in and year-out administrations had been proposing legislative savings, even before the Johnson era. I recall that the Johnson administration always included impact aid as one of their legislative savings. They always were able to try to get a reduced budget as a consequence of including these savings. But the savings always depended on action by the Congress, and the Congress never acted on these areas of legislative savings.

The Carter administration picked up on the same habit and, indeed, included large amounts for legislative savings. So I suggested to the chairman of the Budget Committee at that time that we ought to form a task force that would try to follow up on these suggestions for legislative savings. We on the Budget Committee, as a matter of fact, were including these legislative savings in our budgets in the hope that they would be achieved by the committees and by the Congress, and yet year-in and year-out it never happened.

So the chairman did set up this legislative savings task force. We began to focus on authorizing committees that had and tried to push to get the Congress and these committees to adopt legislative savings that were adopted by the Congress in the budget resolution.

We were not very successful because it was largely based on voluntary efforts. We tried to push members. We tried to take these issues to the floor to speak to them, to try to put public pressure on chairmen of various authorizing committees. The first time we tried this, we requested legislative savings of $700 million. These were included in the budget resolution. We were able to achieve about $13 million in actual legislative savings that year.

The next year we had a recommendation by the Carter administration that was accepted by the House and the Senate of $2.6 billion in savings. That included COLA changes and a number of other changes. Of the $2.6 billion that we had targeted, we were able to achieve $200 million. That was the largest amount ever achieved in legislative savings since administrations had been proposing them.

That was largely done, as I said, through cajoling, through talking with committee chairmen and committees, trying to get them to push some of these savings through.

Obviously, the voluntary approach did not work that well. We knew we had the reconciliation tool, and yet there was a hesitancy institutionally to use reconciliation because it might destroy this delicate balance between budget, authorizing, and appropriations committees. So as a result, there was never much support for using the tool.

As you may recall, as a consequence of very high inflation, the Carter administration decided that they would move for a balanced budget. There were meetings with the leadership of both the House and Senate side to try to arrive at a balanced budget and decisions were made as to what areas could be reduced.

The emphasis at that time was if we are going to achieve any of these reductions, we are going to have to implement reconciliation. I think Senator Muskie indicated that that had to be done and Congressman Giaimo and myself agreed that we had to implement reconciliation if we were going to achieve these reductions and if indeed we were going to succeed in reaching a balanced budget.

We did implement reconciliation in the first budget resolution in 1980. We were able to put that process into effect. It took about 6 months from the time we first built in reconciliation to the time we actually passed the conference report. There indeed were times when I thought that we were not going to be able to move the package. We had instructed I think about eight committees at that time. Some of the committees were resisting the instructions on reconciliation. But we were able with the help of the leadership and with constant pressure being brought on the committees to try to move reconciliation. Indeed, we did. It was successful. The Congress adopted it without too much in terms of bad feelings on either side.

Obviously with the tool having proved successful in 1980, it became a tool that everybody I think knew would be used again in 1981, because we were all aware that we faced additional reductions. So as a consequence, in 1981 the same process was put into effect, and it was put into effect in spades, so to speak, with the result being, as you know, $35 billion in budget reduction.

The 1981 reconciliation left a bad taste in a number of members' mouths. Even David Stockman has indicated before this committee some concern about the use of the reconciliation.

I think there are some obvious dangers that have to be looked at in terms of using a tool like this. First of all, let me make very clear that as a member of the Budget Committee and as chairman of the reconciliation task force, I think reconciliation is a very important tool. I don't think you can have a budget in which you are targeting a certain amount of reductions without having an en-

forcement mechanism. It is just that simple. We can all sit back and talk about it. It is very easy to talk about making budget cuts. But the problem is how do you implement these goals, these targets that are put in place with the budget resolution?

Frankly, one of my concerns today is that I see the budget process as becoming almost a kind of dance in which the first budget resolution becomes a wish piece in which everybody can say my gosh, we do want a reduced deficit, we do want a balanced budget, and these are the goals we are going to seek. As a consequence, we make a statement in the first budget resolution that is almost impossible to achieve. We build in false assumptions. We build in false hopes. Everybody votes for it and goes back and says we voted for a very tough budget resolution.

The second budget resolution comes around and everybody begins to recognize that we aren't going to achieve those goals in the first budget resolution, but essentially the second budget resolution tries to waffle over the reality that is involved and we still try to keep the same goals. Then we hit the next year, and on January 20, as soon as the President introduces next year's budget, everybody forgets the year we are in. Come the spring, we do a third budget resolution for the fiscal year we are in that is sandwiched between a new wish piece for the next year. The consequence is that we never achieve the goals we set for ourselves because you are always able to avoid facing up to what you built into that first budget resolution.

That is the dance I see being performed in terms of the budget process. I think we have to take steps to try to break that pattern.

Reconciliation is one of the tools that is available to do that. There are some dangers here. One of the dangers that we have to recognize is that it can be used as a train, one of the trains leaving the station. Somebody suggested the other day that Congress, with the way things are going, could probably do all of its business in three pieces of legislation—one being a tax bill, the second being a reconciliation bill, and the third being a continuing appropriations bill—and that we don't have to deal with any other individual pieces of legislation; those three would be enough to wrap up all of our business.

It is a sad commentary, but I think it is becoming true, that we are building in more and more things under one umbrella; and, as a consequence, the American public is not sure of what we are doing on the issues involved. Frankly, what tends to happen is instead of looking at individual issues, instead of really making good policy judgments, you package things and use a cliche to describe what is in the package. It is either good or it is bad. You are either for the President or against the President. You are either for Democrats or against Democrats. So it becomes much easier to simplify it for the American public when in fact it is a much more complicated issue. So the train leaving the station aspect is one clear danger.

Second, it has become a crutch. By that I mean it is a way for members to avoid votes on tough issues. With a package you do not have to stand up on the floor of the House or the Senate, for that matter, and really make the tough votes on some of the issues that are built into the package. In the Senate it is a little different be-

cause you do have an open process. We in the House with a rule in place can essentially avoid a lot of individual votes on major issues.

Frankly, the members politically like that because it is a nice way to be able to say to constituencies that are hurt that, "Boy, I would have loved to have helped you on that particular vote, but it was buried in this massive bill and we had an up or down vote on the whole thing. Surely you were interested in getting this amount in reductions." So I say it is a political crutch.

As members prefer, they come up to me now and say:

> Gee, I hope when you do come to the floor with a reconciliation bill you will keep it to one vote or two votes and we won't have separate votes on a number of issues.

The third danger that is involved here is that we do have to be aware of the very delicate balance between the Budget Committee, Appropriations Committee, and authorizing committees. The budget process has been able to work because that balance has been in place. If we distort that balance in some way, then I think what will be challenged is the very process itself.

Authorizing committees do have their responsibilities. They have the responsibility to look at their issue areas, to look at the substance of the programs that they deal with, and to make recommendations accordingly. They are the ones that have the expertise. They are the ones that deal with these issues on a daily basis, not the Budget Committee. Therefore, we ought not to distort that responsibility.

Second, the appropriations process also has the expertise to look at individual spending areas and make judgments in those areas. The more the Budget Committee gets into the business of telling everybody else what they should do, the more dangerous it becomes that those other committees will react against the budget process itself.

I think we are dangerously close to that at the present time. What I pick up on the House side, particularly from the Appropriations Committee, is an anger about the budget process that I think is dangerous. They feel they are being told what they have to do. And the consequence is that they are going to do everything in their power to undermine the budget process.

On the authorizing side, I think while chairmen and members really should be commended on the work they did in the last reconciliation proposal, I am not sure how many times we can go back to someone like Chairman Perkins and say you ought to cut another $12 billion out of your budget. I am not sure how many times you can go back to those members without rebelling against the process.

As Senator Dole has said, he doesn't want to become simply a subcommittee of the Budget Committee. We can't have the Budget Committee becoming so all powerful that our relationships with the authorizing and appropriations committees are destroyed.

Chairman ROTH. Can I ask you a question there?

Representative PANETTA. Sure.

Chairman ROTH. Do you think it would help in any way to have as members of the Budget Committee the chairmen and ranking members of the key committees so that those decisions, when they are made, are the result of the leadership?

Now, I asked the same question of Alice Rivlin. She thought one of the problems with this idea is that maybe it is good to have some controversy, an adversarial relationship.

Representative PANETTA. A lot of that depends on the work of the leadership in terms of bringing those elements together and how well they continue to communicate with each other. I think it could be done without making chairmen of the key authorizing committees and appropriations committees members of the Budget Committee. The leadership and the Budget Committee chairman must stay in constant communication with committee chairmen about budget issues.

We have found over the last 2 years, since reconciliation went into effect, that I am almost constantly asking the chairman of the Budget Committee and the Speaker to call meetings of these chairmen, in order to debate different approaches and to air issues. We have to hear what members and chairmen are feeling before we decide on what course to take. If we just operate in a closed room and decide we are going to just ram this down somebody's throat, the likelihood is that we are going to lose the leadership's support.

If you have a good communications system, then I think the current Budget Committee membership is OK. If that breaks down, we may have to look, obviously, if we want to protect the budget process, to having chairmen as members of the committee. One problem I see is that you will have very divided loyalties with this sort of membership. He would have to play one role on the Budget Committee and quite a different role on the authorizing committee. I would tend to think he would favor the authorizing committee because those are the constituencies that that person has served in the past.

What are some of the areas that I think you need to look at in terms of reconciliation for the future, at least some of the questions that need to be asked?

One relates to the area of direct spending versus appropriations. I know on the Senate side both direct spending and appropriations are reconciled. That has not been the approach used on the House side. On the House side we have used one approach for direct spending in programs and what is known as the 302(a) allocation approach with regards to appropriations. In other words, what we have done is we have directed authorizing committees with regard to direct spending, but when it came to appropriations, while we established a figure that the Appropriations Committee had to achieve overall, we allowed the Appropriations Committee to divide that figure up among its various subcommittees.

What has happened in the last resolution was that we directed the authorizing committees to in fact lower appropriations levels, which then boxed the Appropriations Committee in when they had to consider the various appropriation bills.

We didn't gain anything with this approach, very frankly. You know, if it was an effective enforcement tool, I guess I would have to say we should take a second look at it. It hasn't worked, however.

The consequence is that we are having a very difficult time with the Appropriations Committee in trying to live up to the limits that were imposed under reconciliation. So I think at least from

the House point of view it makes much more sense to target reconciliation on direct spending, which means dealing with entitlement programs, it means mandating these committees to come up with a set amount of savings in these areas; but on the appropriations side, hold them simply to a broad target and allow them to divide that target among their various subcommittees.

The 302 allocation, if it is enforced—and we intend to enforce it on the House side this year—is effective because we can then hold those appropriations at the desk and in effect stop them from moving out of the Congress. We think that is a sufficient tool. To play that game twice, both through reconciliation and then the 302 allocation, is I think to rub the Appropriations Committee's nose in the mud. That is what is causing I think some of the reaction we are getting on the appropriations side.

So for reconciliation purposes, I would think about focusing it pretty specifically on direct spending.

Second, and an area I hope you will look at in depth, is the question of how much legislation is then built into reconciliation that has absolutely no relationship to the budget. It is a tool that you can build all kinds of legislation into.

If you look at what happened this last time on reconciliation, it included at one time or another an entire telecommunications deregulation bill, which did not really relate in any way to budget targets; it included lawn mower safety standards, which certainly do not relate to budget targets; it included a measure which was adopted promoting chastity consciousness, among other things.

The danger is if I am somebody trying to sneak some legislation through, the best place to hide that is in a reconciliation bill. It may have absolutely nothing to do with cost savings, but it is a tremendous vehicle to get your bill through if you don't think it is going to move any other way.

That is a danger. That really does undermine the reconciliation process, because then members will say this isn't just dealing with the budget. We aren't just talking about saving money. This has become a pork barrel bill to pass all other kinds of issues.

So I think reconciliation certainly has to be limited to cost savings. It has to be limited to reductions, and it has to be pinpointed in terms of budget targets and instructions that were provided by the Budget Committee. We must not accept extraneous bills that deal with other areas.

Third, and this is from the House point of view, the reconciliation bill was undermined to some extent because the rule as it was designed allowed for the introduction of a massive amendment that came in at the last minute that none of the members had carefully considered or looked at. I am sure you are aware of some of the problems that arose in that 800-page amendment that included phony numbers, that eliminated programs that were not intended to be eliminated, that none of the members understood. If you were to ask a member today what was included in that 800-page amendment, very few, if any, would be able to pin down what was involved.

In addition to that, it really bypasses the basic process that we establish of hearings, of debate, of amendments, that I think are the heart and soul of the legislative process.

So from our point of view on the House side, and the chairman of the Rules Committee I know has testified here, I don't think there is any question but that he will not allow that kind of thing to happen again. He will certainly ask that any amendments to a comprehensive reconciliation bill be printed in the record and that there be adequate time to look at the elements of that kind of proposal.

The fourth thing I want to mention is the question of whether reconciliation ought to be tied to the second budget resolution instead of the first. The reason it has been tied to the first budget resolution is because it has been a commonsense decision that if you are trying to achieve anywhere from $15 to $30 to $40 billion in savings, you are not going to be able to pass a second budget resolution sometime in September at best. We have the last few years bypassed that September 15 deadline continually. But let's assume you pass a second budget resolution sometime in September. In October; if you are in an election year, it is almost impossible to get people back here to work on reconciliation. In a nonelection year, Members are anxious to get back to their district in any event. So it is very tough to try to squeeze reconciliation in in the limited time that is available.

For that reason, we have tied reconciliation to the first budget resolution, to allow time for the committees to consider the recommendations contained in the instructions.

The problem is that under the Budget Act, reconciliation was essentially supposed to work under the second budget resolution. That is the way it was designed. I think it was developed on the basis that the second budget resolution would in fact become the final budget resolution. Everybody knows now that we are going through this dance that I referred to earlier in my testimony. So, as a consequence, the reality is that the second budget resolution doesn't mean much anymore and the first budget resolution is where it is at.

I think it probably makes more sense, if you are going to consider changes in this area, to talk about one budget resolution. In other words, instead of having two or three or four budget resolutions, have one budget resolution, the first budget resolution, and make that the principal vehicle on which to implement reconciliation.

The last thing I would mention is something that I think we have to give consideration to in this institution, if either the budget process or the appropriations process or any other process is going to survive. The year-to-year budgets are chaos. As I said, they really provide the opportunity to play games with the American public and, indeed, with ourselves. I think we need a longer period for budgets.

I have recommended on the House side and proposed a 2-year budget cycle which would allow for 1 year essentially for oversight, for reviewing what needs to be done, and the second year for actually implementing those goals, but establish a 2-year cycle on the budget rather than the yearly cycle we have now. I think that would provide for greater opportunity for the committees to work on reconciliation. I think there would be greater stability in terms of our decisions. Right now I think one of the things that is feeding

into the lack of confidence in the investment community and elsewhere is that we continue to change the game plan. Within 3 weeks now after we have one program in effect the talk is to change a program, to make major changes in it. I think it is that kind of bouncing around that undermines confidence in our ability to do the job. I think a 2-year budget would certainly give us greater credibility. It would give us certainly greater opportunity to try to stabilize this process in some way.

Those are some of the areas I wanted to suggest to you. Obviously there are others that need to be considered. I know that you, Mr. Chairman, and the committee will take the time to look at some of these other areas.

Chairman ROTH. Thank you for a very excellent presentation. Let me start out by saying that I agree with a number of observations that you have made. I would just like to comment on the last one first.

I think there is nothing more important than getting this Government on a steady course. I think one of the real problems that we create here in Congress and in Washington generally, the executive branch as well, is by appearing to change course at every change of the wind. I think if we don't deal with that, we are going to continue to have the problems. I am very concerned about this problem of changing courses. We have high interest rates. We have inflation. We have a slump. Whichever is the most important one at the moment changes, and then we want to change course in Congress. It is no wonder no one back home has any confidence.

Leon, I must say I am pleased. I see a growing consensus I think in a number of these areas. I agree with you, that we ought to try a 2-year cycle. I think that helps the problem I was just mentioning, but I think it also means we can make more meaningful decisions here in the Congress.

One of the real problems is that we have a proliferation of decisionmaking so no one really knows what they are doing.

I was interested in your proposal. You now have come to a conclusion, and a number of us have, that maybe we only need one budget resolution, that the others are extraneous and a waste of time. I would like to ask you one question about the 2-year proposal.

In your earlier proposal, as I understand it anyway, you talked about doing oversight, work on authorizations, and then have the first budget resolution reported during the first year. The second year we would deal with enacting authorizations, enacting the first budget resolution, enacting appropriations, then enacting the second budget resolution. Of course, there is a change in that last point.

It is my thought that in the 2-year cycle 1 year might be devoted, as you suggest, to oversight, work on authorizations, but also adoption of authorizations. I might also say deauthorizations, because it seems to me that should be the year we become involved in sunset provisions, whatever they may be. And then use the other year for the budgetary process, including appropriations, and so forth. I wonder if you would care to comment on that.

Representative PANETTA. Since I initially proposed the 2-year budget, and that was about I guess almost the first year I came to

the Congress, I did it within the context of the budget process. I think the realities of what we are seeing force me to lean towards what you are talking about. I think you could pass one resolution, as long as you set aside enough time to make the budget decisions. What concerns me is this: We ought to set aside enough time for oversight so the committees cannot excuse the fact they don't have enough time to review what is going on in the agencies and departments. That is essential. I think the second year should be used to work on budget decisions, to use the information that has then been gathered in order to set that budget for the next few years, I think that makes sense. A revision of that I would be perfectly willing to accept.

Chairman ROTH. Going to the reconciliation, it seems to me, as one who was involved in drafting the original legislation, that the principal intention was what you were describing. The intention was that it could be used, to the extent it had to be used, to enforce the budgetary decisions. Now I am concerned that it has become a vehicle for other purposes. I don't care how meritorious the ideas are, whether it is a super fund, as was proposed in 1980, or some of the proposals we had in 1981. Reconciliation is not the proper vehicle. In using it, essentially what you are doing is bypassing our regular legislative process. I agree with you, that if we can some way restrict or limit that vehicle to enforcement of the budgetary targets, that would be desirable. It may be that we ought to have legislative proposals in this area.

Representative PANETTA. I think that is probably, Senator, going to have to be done because it is just too attractive. It is too attractive. The first time we did reconciliation, what happened in the Ways and Means Committee—was that they were enacting spending proposals on one side with regards to expanding benefits and on the other side they were cutting benefits. We looked at this thing and said while you are saving $6 billion, you might wind up spending $8 billion.

Fortunately, this last time around we had an agreement with Senator Domenici that we weren't going to allow the committees to add those kinds of programs. And it worked. But I think we are going to have to build it in some way.

Chairman ROTH. Would you see any value in having a single appropriations bill rather than the several we now have? In other words, would it be a good idea to replace the second budget resolution with a single appropriations bill which implements the first budget resolution.

Representative PANETTA. Well, my initial reaction to that is that we have a deteriorating appropriations process now where we are moving to essentially that kind of approach through a back-door vehicle. Instead of having one appropriations bill, what we have done is we have now fallen into this trap of continuing resolutions.

Chairman ROTH. Right.

Representative PANETTA. I think it would be far better if we could return to the kind of process that I think was intended, which is to have Members make judgments on individual appropriations bills and have the Congress act on individual appropriations bills. But again, what has happened is this has become the train/crutch problem that I talked about on reconciliation. Instead of

members having to face up to those tough votes on individual measures, it is much easier to bury it all in a continuing appropriations bill. So we can't pass a foreign aid appropriations bill so you package it in a continuing resolution. You can't pass a health and education bill so you package it in a continuing appropriations bill. We never have a problem with Interior. We don't seem to have problems with some of the other appropriations. But the touchy ones are tough for Congress to deal with. What we tend to do is then bury it in this continuing appropriations. It has gotten worse, and worse, and worse.

Chairman ROTH. As you indicated, we have a little different circumstance here. As you well know, any Senator can almost force the vote on any issue.

Representative PANETTA. That is right.

Chairman ROTH. We have taken your lunch period. I think whatever we do in this area has to be a joint venture between the House and the Senate, for obvious reasons. I particularly appreciate your coming over. I would like to continue to discuss these problems with you, and see if we can't work out some of these problems in an expeditious manner. I must say I think your suggestions, your testimony, your written articles, have been extraordinarily helpful. I appreciate your being here.

Representative PANETTA. Great. Thank you very much. Again, I want to commend you for having these hearings because I guess it was the other day I was talking with somebody from the press and talking about reconciliation and describing its various elements, the problems and the needs. We were talking about whether we would have reconciliation again. Finally the fellow said, "By the way, what is reconciliation?" [Laughter]. So I kind of think there is an education process here that needs to be done not only with the Congress but with the American public.

Chairman ROTH. Absolutely. Thank you very much.

Representative PANETTA. Thank you.

[Representative Panetta's prepared statement follows:]

STATEMENT OF THE

HONORABLE LEON E. PANETTA

TO THE COMMITTEE ON GOVERNMENT AFFAIRS
UNITED STATES SENATE

October 29, 1981

First, Mr. Chairman, I would like to thank you for inviting me here today and to commend you for holding hearings on the reconciliation process. As you know, I have been chairman of the House Budget Committee's Reconciliation Task Force for the past two years and have been greatly involved in the struggle over the reconciliation bills of 1980 and 1981, and prior to that I was chairman of the Legislative Savings Task Force in 1978 and 1979. I think this is an ideal time for all of us concerned about the legislative process to sit down and discuss the use of reconciliation and the implications of such use for the institution of Congress.

For the record it should be noted that in the House of Representatives efforts to reduce federal spending through the budget process have been going on for four years. Many probably feel, and in fact I have read press reports saying as much, that reconciliation arrived on the scene full grown this year. In fact we cut a substantial amount from the budget deficit last year through the use of reconciliation, and in the House, efforts were made in 1978 and 1979 to secure budget cuts from committees voluntarily. These efforts at legislative savings - sort of a warm up for reconciliation - were not terribly successful. In 1978 the House Budget Committee asked certain House Committees to voluntarily adopt "legislative savings" of $700 million. Only thirteen million in reductions were achieved. In 1979 $2.6 billion was requested. Two hundred million was achieved.

The true birth of reconciliation occurred last year when a shared concern over increasing government spending led to an agreement between the Carter Administration and Congressional leadership on the need for a balanced budget and the necessary cuts needed to achieve that goal. It was agreed that House and Senate committees would be directed, in the first budget resolution, to examine direct spending programs (mainly entitlements) under their jurisdiction and to submit legislation achieving a set amount of spending reductions for packaging in an omnibus reconciliation bill. The Ways and Means and Finance committees were also involved on the revenue side.

Perhaps the most difficult aspect of reconciliation in 1980 was conference. Over six weeks were spent resolving differences between the House and Senate packages, with final passage coming after adoption of the second budget resolution. It took nearly six months to complete reconciliation from beginning to end. In contrast, this year Congress cut seven times as much in spending and worked through conference in about two weeks, resolving hundreds of difficult issues in the process.

We are all aware of the bad taste left in the months of many who were involved in this year's reconciliation process. Even David Stockman, who pushed the use of reconciliation as a vehicle for passage of the Administration's budget cuts, expressed some concern in his testimony before your committee about the way the process was used this year. At times it is hard to separate resistance to the reconciliation process from resistance to the budget cuts achieved through reconciliation. Nonetheless, I think we all recognize that hard opposition exists simply because of the way reconciliation threatens the legislative process.

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We have a constitutional and a moral duty to give our full consideration to every bill and resolution that is before us. Naturally no one representative or senator can be completely knowledgeable about every piece of legislation that passes through Congress. But this is made up for, at least in part, by intense scrutiny at the subcommittee and committee level and by full debate on the floor of both Houses. This guarantees that a substantial number of representatives are fully informed about the legislation at hand. This year reconciliation to a large degree bypassed this delicate process. Last spring committees had just over three weeks to comply with the instructions approved by the House, with the threat that if they did not make the cuts somebody else would, with no guarantee that priorities supported by the committees would be followed.

Very little time was available for hearings, staff study and debate among members prior to decisions on where cuts should be made -- all of the activities that normally take place in the traditional legislative process. As a result, Congress passed volumes of legislation cutting programs without any real idea of what those cuts would mean. The problem was greatly aggravated by Administration amendments, in the House, which replaced much of what the House committees had submitted. These changes were packaged in an 800 page substitute bill which was not revealed to the House until six hours before the vote. Few members had any idea of what was contained in that substitute. Even today state legislatures, federal and state agencies and the people who benefit from federal programs affected by the substitute are unsure of what the impact will be based on those changes.

Unfortunately the way reconciliation was used this year gave a bad name to a process I think is a valid, useful and essential tool for restraining federal spending. The whole point of the budget process is to force Congress to agree to spending and revenue levels for a certain fiscal year. That agreement becomes meaningless without some enforcement mechanism, which reconciliation provides by requiring committees to conform their programs with the spending levels set by both Houses. In 1980 reconciliation was used successfully in a limited way and substantial support for the process was created in Congress. This year the process, in my opinion, got out of hand, creating doubt in the minds of both Democrats and Republicans about whether it should be used at all. It included not just measures to cut spending, but policy legislation as well. It forced authorizing committees to limit the jurisdiction of the appropriations committees. It became both a train for miscellaneous amendments and a hideaway for those who did not want separate votes on the tough issues. And, most of all, it distorted the delicate balance between budget, authorizing and appropriating committees. This doubt has been reflected in previous testimony before your committee. The key to the future of reconciliation is how successful we are in reaching agreement on how the process should be used and on what limitations should be imposed. To this end I would like to identify and comment on some of the major issues that arose from the use of the process between May and July of this year.

Should Reconciliation be limited to Direct Spending Programs?

Perhaps the most important way reconciliation can be reformed is to limit reconciliation instructions to direct spending programs. As you know, federal programs can be divided into two categories: direct spending programs, basically entitlements, and programs which require yearly appropriations. The difference between these two types of programs is

that the appropriated programs are examined by Congress every year through the appropriations process, while the direct spending programs are not required to be reviewed at all. Reconciliation is ideal for direct spending programs because it forces committees to conduct some sort of review of these programs for effectiveness and efficiency, with an eye towards cutting spending.

The process was designed to target reconciliation at achieving spending cuts provided in a budget resolution in the direct spending area, and to use Section 302(b) allocations to enforce cuts in appropriated programs. Under Section 302(b) of the Budget Act, the spending levels set in the first budget resolution are translated into ceilings for each Appropriation subcommittee. When an appropriation bill comes to the floor we can determine through the 302(b) allocations whether it breaches the ceilings set by the first budget resolution. Action can then be taken on the floor to conform this bill to the resolution. Should a bill that breaches a 302(b) allocation pass both Houses we can still prevent it from becoming law by barring its enrollment, at least until another budget resolution is adopted making room for the extra spending. Needless to say not all appropriation bills that fail to conform to the 302(b) allocations are challenged. The point that needs to be made is that we have a mechanism in place to secure budget cuts in appropriated programs.

Reconciliation does for direct spending programs what the 302(b) allocations do for appropriated programs. Once an entitlement program is created by Congress there is no guarantee that it will be looked at again. A committee can voluntarily choose to make the program more efficient but this is a rare occurrence. Because Congress is not forced to examine these types of programs they are often referred to as uncon-

trollable. In fact they are controllable, all it takes is a commitment by Congress to undertake some sort of review. This is where reconciliation comes in. It is a way for Congress as a whole to express its desire that these programs be looked at with the goal of cutting expenditures.

The 1980 agreed-to budget cuts were broken down into those that should properly be achieved through reconciliation and those that should be achieved through the appropriations process. There was general agreement that this was the logical way to proceed.

This year the House Budget Committee followed the same process. Agreement was reached on what reductions would be asked for in each program and then we determined which cuts should be achieved through reconciliation and through the appropriations process. Our resolution, which called for greater cuts than the administration, only proposed using reconciliation to achieve $13 billion in cuts. The Senate and the Administration, on the other hand, agreed to use reconciliation to achieve cuts in both the direct spending and appropriation areas. Since there were no appropriation bills in existence at that time to reconcile, it was decided that instructions would be issued to authorization committees to cut authorization levels, thereby binding what the appropriation committees could do with later spending bills. The substitute resolution that the House adopted in place of our resolution also included reconciliation instructions on the appropriations side, locking in this approach for both Houses of Congress.

A number of technical problems immediately arose from this action. In many cases authorization legislation for certain programs had expired, leaving the committees nothing to cut from. Also, three year reductions were required in the reconciliation instructions, leaving committees in a quandary over how to achieve cuts in programs they traditionally authorized for only one or two years. These types of problems were worked

out by the Budget Committee and the authorization committees, but the confusion created almost brought the reconciliation process to a halt.

Another problem with reconciling authorizations is that Congress has to decide twice what spending levels will be for a particular program. This is because the appropriation committees are not required to fund a program at the exact level set by the authorization committees - it can be funded at a lower level, or in some rare cases at a higher level. After all the struggles we had last summer agreeing to budget cuts we are going through the same process again on the appropriation bills.

One final problem is that this procedure threatens what has always been a delicate balance of power and responsibility between the authorization and appropriation committees. Appropriation committees have the experience and expertise to make the line item decisions in spending bills, yet this year we largely placed that responsibility with the authorization committees. If asking authorization committees to lower expenditure levels on programs under their jurisdiction was the only way to get budget cuts then such a request could be justified. But for these non-entitlement programs we have the 302(b) allocations which, by the way, have been followed with great care by the Appropriations Committee on the House side this year.

I can assure you that the House Budget Committee will not use reconciliation to cut spending in appropriated programs in the future. It is my hope that the Senate seriously reflects on the distortions created by this approach and focuses future reconciliation on programs for which it is best designed.

Excluding legislation with no budgetary effect from reconciliation.

Perhaps my greatest fear with regard to reconciliation is that it will develop into an all purpose, anything goes vehicle for the entire legislative product of the U.S. Congress. The widespread, and probably

correct, assumption that reconciliation bills are veto-proof led a number of committees to include in their reconciliation legislation items that had nothing at all to do with cutting spending. This year's reconciliation bill included, at one time or another, an entire telecommunications deregulation bill, lawn mower safety standards and a measure promoting chastity consciousness, among other things. In the case of the telecommunications legislation there was no similar House provision, in fact Congressman Wirth's subcommittee had not even held hearings on what was a very complex subject. The House-Senate conference on the reconciliation bill was stalled for weeks on that particular issue, while legislation mandating spending cuts sailed right through.

The fact that some legislation of this kind was successfully passed through the reconciliation process will spur similar attempts if reconciliation is used next year. One can further imagine reconciliation being used to raise revenues, as was done in 1980, leading to a Christmas tree reconciliation bill with all manner of spending and tax provisions, plus any miscellaneous nonbudget legislation Congress plans to pass next year. The possibilities are endless. As you know the expiration date for the Voting Rights Act is coming up next August. What is to stop our Judiciary Committees from placing the legislation needed to extend the Act in reconciliation? No matter what we think of the Voting Rights Act, we have to ask ourselves whether it is proper to consider it as part of reconciliation.

I am not sure we can make this reform through agreement between House and Senate leadership or by some more permanent method such as amending the Budget Act. Some way must be found, however, to keep reconciliation as a budget tool and to avoid its use as a cargo ship for every legislative item before Congress.

The Rule on Reconciliation Bills

I realize Mr. Chairman that the Senate is set up somewhat differently with regard to rules for consideration of legislation on the floor, however I want to take this opportunity to discuss the rule adopted in the House for consideration of the reconciliation bill this past June. As you may recall, the rule allowed an extensive amount of legislation to be considered as a package. A rule approved by the Rules Committee which set up a series of votes on specific changes in programs such as food stamps, child nutrition, subsidized housing and student loans was rejected prior to adoption of a rule making a massive substitute package in order. The legislative process was totally subverted by the way we considered this substitute package. There were drafts of what the package was supposed to include available the night before we took action on it, but no one knew what the final package looked like until 10 A.M. the next morning, with the vote occurring about 4 P.M. Members of the House had about six hours to wade through 800 pages of legislation without the benefit of any report language or explanatory material, or even page numbers. This might not have been so tragic if those offering the bill had any idea of what was in the package, at least then we would have had some debate, but those offering the substitute were as mystified by the package as the rest of the House.

This was a terrible way to proceed for the reasons I touched on earlier. Our duty is to give full consideration to all legislation that comes before us. Even though House committees had only three weeks to put together their reconciliation packages last spring, enough debate and staff study was conducted to ensure that Members had at least a general idea of what they were submitting. This was not true, as far as I could tell, for the substitute package. It was impossible for those

of us who had concerns to find out exactly what the bill did. We could pick out what titles and sections of law were repealed, but we had great difficulty trying to understand the substance of the package. After it was approved we had a chance to examine it more thoroughly and a number of mistakes and drafting errors were found, which served to embarrass the entire House, along with major changes in federal programs, which went through completely unobserved. Fortunately, we had conference with your side to clean up the mess that was made.

Again, this is an internal matter for the House to deal with. Nonetheless I think what happened in this area is important enough to bring to your attention since that incident is what many Members were most outraged at during this year's reconciliation process.

Should Reconciliation be limited to the Second Budget Resolution?

A plain reading of the Budget Act and an examination of the Act's legislative history makes a very good case that reconciliation was meant to be used only in the second budget resolution. Chairman Bolling of the House Rules Committee has pointed this out to you very persuasively in previous testimony. However if you believe some limited use of reconciliation is justified, as I do, it is very tough to back any move to limit its use to the second resolution. There is simply not enough time to do a responsible job of reconciliation with the time limitations that exist after passage of the second budget resolution. The situation this year shows you the problem. It is October 29 and neither House has begun mark-up for a second budget resolution. If in fact some reconciliation was included in the second resolution we would probably spend Christmas day in conference. I think it is clear that if we decide to use the reconciliation tool that it should be used early in the year to allow adequate time for committee hearings, mark-up and

complete consideration on the floor and conference.

Two-Year Budget

Mr. Chairman I know you are interested in a whole range of issues related to the budget process so I would like to take this opportunity to talk about my two-year budget bill, particularly because I think it is in part a solution to some of the problems we encountered in reconciliation this year.

H.R. 1019, the Biennial Budgeting Act of 1981, currently has 35 cosponsors and has been referred to the House Government Operations Committee as well as the Committee on Rules. The bill would amend the Congressional Budget and Impoundment Control Act of 1974, giving Congress two years to conduct oversight hearings and pass spending legislation in preparation for a two-year budget period. As you know, Senators Ford and Bumpers have also introduced a bill providing for a two-year budget period in the Senate.

In brief, under the provisions of H.R. 1019, the first six months of the two-year congressional term would be devoted to formal oversight of programs and agencies by the committees of each House. The second six months of the first year would be set aside for work on authorization bills and would end with the Budget Committees reporting a first concurrent resolution on the budget. Authorization bills and the first budget resolution would be passed early in the second session, following which both Houses would consider appropriation bills, with a deadline for passage of such bills the 7th day after Labor Day. A second budget resolution would be passed two weeks prior to the start of the new 2-year budget period.

From my perspective, the most exciting recent development regarding the two-year budget bill was a decision by the General Accounting Office

to conduct a study of the two-year budgeting concept. Congressman Mineta, Bethune, Regula and myself requested on behalf of the House Budget Committee's Task Force on Enforcement, Credit, and Multi-year Budgeting that the GAO undertake a study in a letter to Acting Comptroller General Milton Socolar last July. We were advised soon thereafter that the Program Analysis Division of the GAO was beginning a study to determine "the feasibility and advisability of lengthening the budget cycle, specifically to a 2-year period."

Obviously, I am very much looking forward to the completion of the GAO report, which I expect to be published in the fall of 1982. No similar study has been conducted that attempts to explain what the impact of a two-year budget process would be on Congress, and the Federal government in general. A member of the GAO staff involved in the study has already visited the state of Wisconsin, a state with a two-year budget system, to talk with legislators, staff and budget experts on the advantages and problems that accompany such a system, and the staff has plans to visit other states that are run on the two-year schedule. I hope to receive an interim report on the progress of the study soon.

Many of us have been concerned that Committees are not doing enough oversight on federal programs. The Biennial Budgeting Act was offered partly as a solution to this problem. It was my feeling that by stretching out the budget process and allowing committees six months to conduct oversight activities enough time would exist for considering new legislation and a thorough review of existing legislation would be assured.

This year, for the first time in the past few decades, Congress is more involved in cutting back the number and size of federal programs than in creating new programs and increasing the scope of existing programs. This situation, however, does not diminish the need for over-

sight. In fact the need is even greater. Based on the last round of budget cuts the elderly will lose various benefits in Social Security, school children will have to pay more for their lunches, CETA jobs will be eliminated, food stamp benefits will be lost, and the disabled will be forced to pay more for medical care. These cuts will undoubtedly hurt people. What is more, the Administration is planning to propose significant new cuts over the next two and one half years. Whether these cuts should be made is a question for another day; what needs to be addressed here is whether the Committees are prepared to make cuts based on their knowledge of federal programs or whether they will be based on a blueprint drawn up by the Office of Management and Budget. How are our Committees to make intelligent decisions about which programs can be eliminated or cut without taking the time to talk to those who run the programs, and to outside analysts, beneficiaries of the programs, the GAO, CBO and congressmen whose districts feel the impact of the programs - essentially what is done through oversight. It may be that all programs under a particular committee's jurisdiction are run efficiently, effectively, serve beneficiaries and contribute greatly to the economic and social health of this country. The challenge today is to identify those programs at the same time those not so efficient or effective are reformed or cut back.

Through reconciliation this year House committees were forced to find $35 billion worth of budget cuts in just over three weeks - the period between passage of the first budget resolution containing reconciliation instructions and the deadline for submission of legislation achieving spending cuts. As chairman of the House Budget Committee's Reconciliation Task Force I worked daily with the committees as they put together their spending cut packages. It was clear that this was an extremely difficult process for most members, not just because

of their political stance on the budget cut issue, but because the background analysis of where cuts would hurt least was either not available or incomplete. This situation raised the question of whether committees were doing proper oversight on programs under their jurisdiction. Surely with thorough oversight activities committees would do a better job of identifying and defending effective programs, defining the impact of proposed cuts and targeting where legitimate cuts can be made.

So whether the Congress is engaged in expanding or contracting the size of the federal government, oversight activities are crucial. Under the Biennial Budgeting Act, again, a six-month period would be set aside for such activities, leaving Congress the rest of a two-year period for work on authorization and appropriation bills. With such a schedule I am confident that Congress will be better equipped to deal with the difficult budget issues and procedures, such as reconciliation, that we will face in the future.

In summary, I hope every member of Congress takes the next few months to reflect on the way reconciliation was used this year. Nothing could be worse than to assume reconciliation has to be used again the way it was last spring and summer. We in Congress control this extraordinary tool and it is our responsibility to see that it is used properly. I hope my testimony here has been successful in pointing out how the process can be improved.

Chairman ROTH. The committee is in recess.

[Whereupon, at 1:40 p.m., the committee was recessed, to reconvene subject to the call of the chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-200685

November 20, 1981

The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental
Affairs
United States Senate

Dear Mr. Chairman:

This responds to the Committee's invitation to GAO to comment on issues raised during the recent hearing held on the Congressional Budget and Impoundment Control Act. Specifically, we were asked to present our views on the Impoundment Control Act and on changes to the Act which would improve its operation. Our comments are made in the context of the current budgetary process, in which budgets and most appropriations are provided on an annual basis. They do not reflect any changes to the Impoundment Control Act that might be desired if the current process is changed to provide for a biennial budget cycle.

GAO has been heavily involved in the operation of the Act as the agency responsible for reviewing and reporting to the Congress on Presidential impoundments. Specifically, GAO reviews Presidential messages supporting proposed impoundments to the Congress. We issue impoundment reports under section 1014 of the Act as to the accuracy and implications of the information contained in the messages. Section 1015 authorizes the Comptroller General to report to the Congress any impoundment which the President has failed to report. Under this and other sections of the Act, he may reclassify impoundments which have been improperly reported. Section 1016 authorizes the Comptroller General to bring suit to compel the release of impounded funds when such release is required by the Act. GAO also responds to numerous formal and informal congressional inquiries concerning the operation of the Act.

Although we have periodically identified problem areas and have proposed appropriate legislative changes, we believe the basic framework of the Act is sound.

GENESIS OF THE IMPOUNDMENT CONTROL ACT

Attempts by the President to impound appropriated funds have been the subject of long-standing debate between the executive and legislative branches. Impoundments consist generally of two types--(1) routine reserves to insure that deficiencies will not occur or to set aside unneeded funds, and (2) withholdings to effectuate executive policy by deferring or canceling implementation of particular programs.

Congress recognized the first type of impoundment when it amended the Antideficiency Act (31 U.S.C. 665) in 1950:

> "to provide [reserves] for contingencies, or to effect savings whenever savings are made possible by or through changes in requirements, greater efficiency of operations, or other developments subsequent to the date on which such appropriation was made available. * * *" Act of September 6, 1950, ch. 896, §1211, 64 Stat. 765.

It is clear that the purpose for such reserves is a limited one. In its report on the 1950 amendments, the House Committee on Appropriations stated that it was--

> "* * * perfectly justifiable and proper for all possible economies to be effected and savings be made. But there is not warrant or justification for the thwarting of a major policy of Congress by the impounding of funds." H.R. Rep. No. 1797, 81st Cong., 2d Sess. page 311 (1950)

Defining the scope of authority to impound funds became a source of intense conflict between the executive and legislative branches after President Nixon's reelection in 1972. The President asserted a constitutional right to impound funds. The Director of the Office of Management and Budget testified in 1973 that the President had the power to substitute his judgment for that of Congress on the relative importance of congressionally legislated program objectives. */

Beginning in December of 1972, the executive branch embarked on an unprecedented and massive range of policy impoundments, often in the face of congressional opposition. Housing, agricultural, and disaster relief programs, among others, were terminated. Other programs, such as impact aid, assistance for the elderly and handicapped, and public works, were cut substantially.

These impoundments led to many lawsuits. During 1973 alone, over 60 impoundment cases were filed in Federal district courts.

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*/ Joint hearings on S. 373 before the Ad Hoc Subcommittee on Impoundment of Funds of the Senate Committee on Government Operations and the Subcommittee on Separation of Powers of the Senate Committee on the Judiciary, 93d Cong., 1st Sess. 524-28 (1973) (testimony of OMB Director Roy Ash).

The courts, for the most part, held that there was no general discretion vested in the President, by the Constitution or by statute to refuse to implement programs authorized and funded by Congress, and that attempts to avoid implementing Government programs through impoundments were illegal.

Nevertheless, Congress itself lacked a direct mechanism to respond to Presidential impoundments. In order to establish an orderly process for congressional review and disposition of executive impoundments, it passed the Impoundment Control Act, Pub. L. No. 93-344, title X, 88 Stat. 332 (July 12, 1974).

MAJOR PROVISIONS OF THE IMPOUNDMENT CONTROL ACT

Enactment of the Impoundment Control Act constituted an important step in reassertion by the Congress of greater control over the Federal budget. The Act requires that all impoundments be reported to the Congress and gives Congress ultimate control through endorsement or denial of reported proposals. The Act is premised upon the concept that all budget authority must be made available for obligation. Provision is made for consideration by the Congress of Presidential proposals to depart from this requirement.

There are two types of impoundments, rescissions and deferrals. Proposals to rescind budget authority allow the withholding of budget authority for 45 days of continuous congressional session after the day on which the request is first received by the Congress, during which the requisite legislation might be enacted. Deferrals allow the withholding of budget authority until rejected by either House of Congress. However, they may not be used to rescind by withholding for the entire fiscal year budget authority provided for only that fiscal year.

LEGISLATIVE PROPOSAL TO AMEND
THE IMPOUNDMENT CONTROL ACT

We do not share the view of those who believe that the legal and political concerns which gave rise to the Impoundment Control Act are no longer valid. The Congress should retain an effective method for dealing with proposed impoundments. We do not think it wise to alter fundamentally the present balance between the executive and legislative branches on this matter.

The bill under consideration, S. 384, would allow a President to rescind budget authority without congressional action. The net effect would be to allow the President alone to override previously enacted legislation and to require that the Congress relegislate existing law for it to prevail. The Impoundment Control Act now requires positive congressional action to support non-compliance with budget authorities the President seeks

to repeal. We are not aware of any necessity for Congress to eliminate the requirement that positive congressional action accompany non-compliance. S. 384 would reverse the framework of the Act. It places the burden on Congress to reject rescission proposals. Also, the bill limits Congress' opportunity to disapprove to the 45-day period and contains no provision for congressional action after that period.

The Congress often does not complete its legislative response to rescission proposals within the statutory 45-day period. If under the provisions of S. 384 the Congress failed to act in 45 days, any later action to negate a rescission proposal would be subject to Presidential veto thereby further eroding congressional control.

ALTERNATIVE TO S. 384

We would suggest consideration of an alternative to S. 384 which retains essentially the balanced relationship between the executive and legislative branches.

Under the alternative, provisions in the Impoundment Control Act concerning rescissions would be repealed, and all withholding of funds would be proposed as deferrals with the President indicating which of the deferred budget authorities he wished to have rescinded. Our alternative would also amend the current law (1) to require for each deferral of fiscal year funds that the President specify a date beyond which it would be impractical to obligate the funds involved and (2) to require that the funds be made available for obligation on the specified date if there has been no final legislative action on a request to have budget authority rescinded.

Our alternative retains two basic elements of the present Act: (1) rescission would result only with the concurrence of both Houses of Congress and (2) withholdings of budget authority may be defeated by either House.

Our approach recognizes that Congress might oppose a proposal to rescind, but support a delay in the use of the funds. Present law does not provide the Congress with this option. Administration of the act would be simplified by eliminating the need to distinguish between deferrals and rescissions, and by eliminating the need for Congress to respond within a fixed time.

NEEDED REFINEMENTS TO PRESENT LAW

If the basic framework of the Act is to be retained, we suggest that you consider a number of refinements to streamline and clarify its operation.

--To alleviate uncertainties associated with the indefinite term of "45 days of continuous session," amend the period for congressional consideration of rescissions to 60 calendar days.

--Allow for one House rejection of proposals to rescind.

--Allow for rejection of portions of deferrals.

--Eliminate the reporting of routine non-policy deferrals.

--Require stipulation by the President of a date beyond which deferred fiscal year budget authority could not practicably be obligated and further require that the funds involved be made available for obligation in the absence of any prior legislative mandate.

--Provide that any reclassification by the Comptroller General of a reported impoundment serves to nullify the President's proposal, and

--Provide, where the Comptroller General files a report reclassifying a proposed impoundment, that any time limits imposed by the Act be measured from the date of the President's initial proposal.

The observations and suggestions we have made are based on the historical premises underlying the Act and stem from our operational involvement with its administration. We have not taken into account any agency program inefficiencies related to funding uncertainties occasioned by the time it generally takes to reach positive congressional determinations. We are aware that significant program disruptions are being experienced, and we are evaluating their impact in a review of temporary withholdings which result from rescission proposals submitted under the Impoundment Control Act, for which no rescission is approved by the Congress.

We would be happy to work with the Committee in drafting specific language to effectuate the suggestions we have made.

Sincerely yours,

Milton J. Socolar
Special Assistant to
the Comptroller General

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

Statement of

Harry S. Havens

Assistant Comptroller General for Program Evaluation

U.S. General Accounting Office

before the

Committee on Governmental Affairs

U.S. Senate

on

The Congressional Budget and Impoundment Control Act

Mr. Chairman and Members of the Committee:

I am very pleased to appear before you today. The matter being considered by the Committee is a pressing issue with potentially far reaching consequences. Specifically, what should be done to maintain and further develop the Federal budget process. It is clear that the country is facing significant economic problems, and governmental decisionmakers will have to make many hard choices over the coming years on budgetary levels and allocations. Under these demanding circumstances, it behooves

government to streamline and strengthen its budgeting practices and concepts to better meet policymakers' needs.

We have recently issued a report summarizing our views on these matters, "Federal Budget Concepts and Procedures Can Be Further Strengthened" (PAD-81-36, March 3, 1981). I have attached to my statement summary material from that report outlining our views on the critical steps needed to improve overall budgeting in the Government. I might add that the attachment identifies changes that, in our opinion, warrant immediate legislative action, matters on which the Congress should start oversight or legislative action, and other matters on which further research is needed. It is our position that another budget study group or commission is needed to act as a catalyst for important changes in budgeting procedures.

Today I would like to summarize our views on a few key issues.

BASIC FRAMEWORK ESTABLISHED IN 1974

The basic framework for a systematic and thoughtful budgetary process is in place. The 1974 Congressional Budget and Impoundment Control Act, in whose development this Committee played an important role, established for the first time a set of procedures for assuring a reasonable degree of consistency between individual congressional funding decisions and broader fiscal objectives. The targets or ceilings established in the concurrent resolutions on the budget are highly visible budgetary signposts that disclose the Congress' policy

on fiscal matters, and enhance the Congress' accountability to the public for the consequences of its budgetary actions.

Much has been stated recently, both in and out of the Congress, about problems in the congressional budget process. These problems are certainly real, but I think it is important that they be seen in perspective. In a sense, they are symptomatic of the success of the 1974 Act and the process it established. There can be no doubt that the procedural tools now available can be used to accomplish the basic aim of the 1974 Act--enhancing congressional control over budget amounts.

However, improvement is always possible, and I would like to offer some thoughts on that subject.

NEW ISSUES IN CONGRESSIONAL BUDGETING

One of the most dramatic developments since enactment of the 1974 legislation has been the increasing complexity of budgeting, giving rise to new institutional, timing, and workload questions. The focus of budget analysis and decisions until very recently was on regular appropriation items, with entitlements and other "relatively uncontrollable" programs receiving comparatively little systematic attention in the budget process. I might add that the very term "relatively uncontrollable" was unfortunate, lulling many into the belief that a sizable chunk of the budget was not suitable material for rigorous analysis and budget cutting strategies. Of course, that has changed now--this year's reconciliation has proved conclusively that many of the uncontrollables are, in fact, controllable.

The problem is, however, that achieving budget goals through enactment of substantive legislation is more complex and time consuming than traditional budgeting. The budget arena expands to include authorizing as well as appropriations committees, oversight and budgeting actions overlap or merge, and the need develops for better coordinating mechanisms and schedules to assure the quality and timeliness of decisions.

Coordinating mechanisms

The 1974 Act established the Budget Committees as the coordinators of congressional budgetary actions. Their role has assumed new significance in recent years as the number of congressional budget participants and required actions has expanded. That role becomes even more pronounced as the gap between overall fiscal objectives and the desired funding for individual programs widens. Some witnesses who appeared before this Committee have noted the enhanced role of the Budget Committees and have questioned its appropriateness. This, of course, is a matter for the Congress, itself, to decide. I would observe, however, that it is important for the Congress to maintain, in some form, a strong budget coordinating vehicle to enforce a systematic and disciplined approach to budgeting such as that set forth in the 1974 Act. We would urge the Congress to avoid returning to a fragmented process such as that which existed prior to 1974. If the discipline of an integrated congressional budget process were to be substantially weakened, it would be exceedingly difficult to control budget totals and deal effectively with such diverse but interrelated fiscal policy matters as entitlements, indexing, tax expenditures, capital budgeting,

and Federal direct loans and loan guarantees. Only a coordinated approach is compatible with sound fiscal policy.

Timing and workload

On the timing and workload problem, there is agreement among observers and participants that the Congress is having difficulty meeting the 1974 Act's time schedule in today's budgetary environment. To a certain extent, this is due to circumstances which may be unique. The workload is particularly heavy at this time because of the intensive effort to respond through a large number of substantial budget actions in a effort to overcome intractable economic problems. No budget process can be immune to the strains of this sort of decisionmaking, particularly in the open political setting of the United States Congress. Still, we need to consider what changes might permit more time for adequate analysis and deliberations on budgetary questions.

One alternative worth considering involves extending the time for taking budget actions. Legislation is pending before the Congress that would move the Government to a biennial budget cycle and spread authorizing and appropriation actions over a 2-year period. Conceivably, this would provide the needed breathing space. There could be, however, new problems associated with a biennial budget cycle. GAO is now studying the experiences of several State legislatures with biennial budgeting. Our initial findings, which we expect to be available in early 1982 may be of use to your Committee in considering such a change for the Federal Government.

Oversight reform in the Congress also would help by bringing about more regular committee analysis, debate, and action in de-

veloping and considering proposals for amendi g legislation, including legislation with budgetary impact. The time has come to view the oversight and authorization process as integral to the budget process itself. Steps to systematize congressional actions in overseeing and authorizing programs can only help the Congress' budget process by improving the quality of analysis and information used by the Congress in setting public policies and priorities. We have consistently supported a variety of efforts to strenthen and systematize the oversight process.

BUDGET COVERAGE, CONCEPTS, AND PROCEDURES

The 1974 Congressional Budget Act changed legislative branch budgeting procedures but left intact other elements of the Federal Government's overall budget system. The Act did not address budget coverage and conceptual matters, or the procedures followed in the executive branch. These matters had last been examined comprehensively in 1967 by the President's Commission on Budget Concepts. By 1974, however, certain problems had begun to emerge, and are even more evident today. The developments have placed severe strains on the capacity of the overall budget system to adequately serve the needs of the Government's decisionmakers.

For example, several important Federal programs are legislatively excluded from the budget, resulting in incomplete budget coverage and totals that do not reflect the true level of Federal activities. Furthermore, the growth in entitlements and other less controllable portions of the budget plus the increasing importance of new or indirect

kinds of Federal activities with economic consequences--notably loan guarantees, special tax preferences, and regulations--have created new budget control and information problems. In addition, the budget process itself has been encumbered with complicated procedures, paperwork, and measurement complexities that make it difficult for the Congress to use budget information to assess program results and set national spending priorities.

We share the views of a recent report of the National Academy of Public Administration which called for an improved and expanded budget process.1/ The budget is the only reasonably comprehensive framework available in which to make reasonably consistent decisions about what the Federal Government should be doing and how. It is essential that the process be maintained and strengthened and that its inadequacies be overcome.

This concludes my statement, Mr. Chairman. I would be happy to answer any questions you may have.

1/A Presidency for the 1980's, a report by a panel of the National Academy of Public Administration, November 1980, p. 25.

ATTACHMENT

EXERPTS FROM GAO REPORT ADDRESSING
NEEDED CHANGES IN THE FEDERAL BUDGET PROCESS

"Federal Budget Concepts and Procedures
Can Be Further Strengthened"
(PAD-81-36, March 3, 1981)

NATURE OF THE CHANGES NEEDED

Below we have outlined the basic kinds of changes needed in the budget process. [The chart beginning on page 13] contains a detailed listing * * *.

--To place most off-budget Federal activities back onto the budget, early legislative action is needed. The budget is no longer a fully unified budget. Existing legislation placing certain activities "off-budget" has caused currently estimated fiscal year 1981 budget totals, including the deficit, to be understated by as much as $23 billion.

--To better control short-term and long-term budget levels, a wide range of management, financing, and legislative actions are needed. Budget control can be improved. About 76 percent of yearly outlays are relatively uncontrollable in the annual appropriations process, a matter of growing concern as Government spending has reached about 23 percent of the gross national product. Not enough has been done to achieve better short-term and long-term control. The Government should, for example, review and perhaps develop alternatives to certain indexing practices in Federal entitlement programs; and the Federal Government should also improve its multiyear budget planning by, among other steps, extending the time horizon of the national and global trends and issues being considered.

--To strengthen program and policy level accountability, steps are needed to improve the budget's categories and related information. The use of numerous and dissimilar program categories in authorizing statutes, agency internal records, the budget itself, and appropriations bills is confusing. These practices make it difficult to track budget-related actions and to assess how well the Government is carrying out its programs. What is needed are more standard program categories based upon missions and objectives stated in authorizing legislation.

Also, better cross-cutting categories and information are needed for making policy decisions on certain Government-wide activities--for example, national infrastructure and capital acquisitions, research and development, regulatory compliance costs, and a limited number of other policy areas.

--To streamline the process in order to reduce paperwork and superficial reviews and increase the time for careful analyses and informed debate, changes are needed in scheduling and reporting requirements. Our work has shown that executive branch officials devote much time each year developing paperwork on budget proposals, and frequently attach secondary importance to studying alternative program approaches and preventing uneconomical and ineffective uses of funds. Steps should be taken to decrease budget formulation workload, and provide administrators the time, flexibility, and incentives needed to manage their programs in the best ways.

--To increase the reliability, consistency, and comparability of budget figures, action is required on several measurement concepts and practices. Measurements of budget resources and spending are frequently misleading, making it difficult for budget users to compare program and policy levels, and to understand the full magnitude of governmental operations. For example, the Government's use of "offsetting" calculations removes from visibility about $70 billion in revenues and outlays from 1981 on-budget totals.

NEXT STEPS TO BE TAKEN

The [following] chart lists the numerous budget reform needs and identifies the next congresional steps that, in our view, would be appropriate or necessary to bring about the improvements. Three types of steps are identified: (1) take early legislative action, (2) start oversight or legislation, and (3) encourage further research.

We continue to recommend early legislative action on some matters of particular importance that have been extensively studied, and that mainly involve existing statutes or pending legislation. The changes we judge to be ready for early legislative action, along with references to relevant General Accounting Office reports or testimony, are:

--placing most federally-owned off-budget activities onto the budget (PAD-79-20, February 9, 1979);

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--adopting a program inventory for support of oversight and authorization purposes linked to the budget (PAD-80-77, May 22, 1980);

--establishing a congressional agenda-setting procedure for program reviews and possible reauthorizations, a change that also could be done through congressional rule changes (PAD-80-77, May 22, 1980);

--shifting to multiple-year authorizations for Federal research and development activities now on a single-year basis (testimony 1/);

--eliminating the provisions in the 1974 Impoundment Control Act (31 U.S.C. 1400) and the Antideficiency Act (31 U.S.C. 665) that provide for detailed reporting and potential congressional disapproval of routine deferrals undertaken to increase the economy and effectiveness of operations; and amending the 1974 Impoundment Control Act to permit congressional partial deferral approvals, and more effective implementation of the provisions governing rescission proposals (OGC-77-20, June 3, 1977);

--initiating budget treatment of certificates of beneficial ownership sales as borrowings rather than "sales of assets" (PAD-80-32, April 9, 1980);

--changing from a semi-annual to an annual cost-of-living indexing adjustment in Federal employee retirement programs (FPCD-76-80, July 27, 1976, and PAD-79-22, August 15, 1979); [Done in recent legislative action.]

--changing the housing component in the Consumer Price Index (testimony 2/);

--enacting legislation to allow agencies to incur obligations but not expend funds when appropriations expire, except where program authorization has expired or the Congress has expressly stated that a program should be

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1/Statement of the Comptroller General before the House Committee on Science and Technology on H.R. 7178, the Research and Development Authorization Estimates Act, June 4, 1980.

2/Statement of the Comptroller General before the Senate Committee on Appropriations on the "Lack of Controllability in the Federal Budget," January 29, 1981.

suspended during a funding hiatus pending further legislative action (PAD-81-31, 1981);

--placing the Department of Agriculture's Farmers Home Administration rental assistance program in a general fund account (PAD-80-16, February 12, 1980);

--retiring Amtrak's unpaid debt to the Government through an appropriation (PAD-80-45, March 28, 1980); and

--beginning to appropriate at the start of each fiscal year the total budget authority estimated to be required to cover a full year's operation in such emergency programs as the Department of the Interior's emergency fire fighting program (PAD-80-31, February 29, 1980).

We believe that the Congress should pass early legislation to effect the above reforms.

Actions need to be taken in other areas

Additionally, there are certain budget reform needs that have been studied and are well understood, but which require, in our judgement, congressional leadership for bringing about the changes. These are identified in [the following chart] as matters on which the Congress should "start oversight or legislation." There could be more progress on these items, and the Congress could do much to stimulate the needed improvements by holding hearings, undertaking other oversight actions, reporting recommendations, and starting to draft any needed legislation. We believe that the legislative leadership should place these reform steps high on their agenda for the 97th Congress.

Finally, there are other budget problems and possible reform actions that have not been fully studied; and, most importantly, the interrelationships and trade-offs among the possible changes have not been adequately defined. We have identified these in [the following chart] as matters on which the Congress should "encourage further research." We suggest that the Congress establish a high level budget study group or commission to conduct further research.

A study group comprising the principal leaders of the Federal budget process--elected and appointed officials and other senior experts--could examine the trade-offs among the proposed changes, and make specific decisions and recommendations on the changes that should be adopted. They could propose a workable agenda for implementation, and lead in the

implementation through the legislative and administrative processes.

Special study groups have been especially helpful in developing consensus on administrative reforms, and in overcoming institutional differences and resistance to change. Earlier study groups that acted successfully as catalysts for administrative reforms include the Brownlow committee in the 1930's, the first and second Hoover commissions of the 1940's and 1950's, the President's Commission on Budget Concepts in the 1960's, and the Congressional Joint Task Force on Budget Control in the 1970's. The General Accounting Office is prepared to participate in the work of any study group or groups the Congress or the President chooses to establish.

RECOMMENDATIONS TO THE CONGRESS

We make accordingly the following recommendations to the Congress:

--The Congress should act early on legislation to effect the budget reform changes identified herein * * * and in [the following chart] as the changes on which the Congress should "take early legislative action."

--The Congress should exercise leadership in bringing about certain other budget reforms concerning matters that have been studied extensively, but which require congressional leadership for bringing about the changes. They are identified in [the following chart] as items on which the Congress should "start oversight or legislation."

--The Congress should encourage further analyses on budget system problems that involve complex interrelationships and trade-offs, and that have not been extensively studied before. These are identified in [the following chart] as the matters on which the Congress should "encourage further research." The Congress also should take steps to establish a study group or commission comprised of high elected and appointed officials, and other senior experts, to conduct such further research.

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BUDGET IMPROVEMENT NEEDS AND PROPOSED ACTIONS

MAJOR CATEGORY Sub-category Need	Take early legislative action	Start oversight or legislation	Encourage further research
BUDGET COVERAGE SHOULD BE EXPANDED			
Put most federally-owned off-budget activities onto the budget	x		
Review off-budget status of Federal Reserve Board			x
ENHANCE BUDGET CONTROL			
Long-term control			
Start certain improvements in multiyear budget planning, including extending the time horizon of budget information on national and global trends		x	
Develop strategy for improving multiyear budget planning Government-wide, and consider ways to regularize congressional action on future relatively uncontrollable amounts			x
Short-term control			
Actions needed to lessen, or examine, impact of existing automatic spending mechanisms, including:			
--Entitlements:			
.Change to annual indexing adjustments for Federal pensions [Done]	x		
.Change the housing component of the Consumer Price Index	x		
.Consider (after studying trade-offs) more use of "caps" and annual appropriations for better entitlement control		x	
.Study ways to regularize budget action on future entitlement levels			x
--Permanent budget authority: review for possible curtailments		x	
--Forward and advance funding: review for possible curtailments		x	
Need for new procedure to prevent disruptive funding gaps between fiscal years	x		
Better budget process controls and reporting on carryover balances:			
--Need for more systematic congressional consideration of, and action on, carryover balances when providing new funding			x
--Principles and guidelines needed on when to use no-year or fixed-term funding			x

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	Take early legislative action	Start oversight or legislation	Encourage further research
BUDGET CONTROL (cont.)			
Short-term control (cont.)			
Improve controls over credit activites:			
--Functional breakdowns needed in the Congress' credit budget		x	
--Count limitations on direct loans as budget authority		x	
--Adopt standard definitions for such credit terms as "guarantees," "insurance," "defaults," "interest subsidy," etc.		x	
Make uses of revolving and special funds conform to accepted principles and guidelines:			
--Place the Department of Agriculture's Farmers Home Administration rental assistance program in a general fund	x		
--Review whether existing uses of revolving and special funds conform to the budget and managerial purposes of such funds		x	
--Improve the adequacy of the statutory authority for earmarking receipts in special and revolving funds		x	
Other control actions that have been suggested:			
--Some amendments to the 1974 Impoundment Control Act to permit congressional partial deferral approvals, and more effective implementation of provisions governing rescission proposals	x		
--Better monitoring and reporting on agency uses of gift funds		x	
--Consolidated budget reporting on programs with multiple accounts and funding sources, such as Medicare		x	
--Possible constitutional or special statutory restrictions on spending and taxes			x
--Possible indexing of Federal taxes			x
--Better controllability categories			x
--Debt retirements that provide for full budget disclosure and congressional control:			
.Appropriation needed to retire Amtrak's debt	x		
.Establish general criteria for retiring agency debts		x	
IMPROVE PROGRAM AND POLICY LEVEL ACCOUNTABILITY			
Develop program entities and aggregations based on authorizing legislation			
Adopt program inventory to support oversight and authorization purposes, linked to the budget	x		

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IMPROVE ACCOUNTABILITY (cont.)	Take early legislative action	Start oversight or legislation	Encourage further research
Develop program entities (cont.)			
Implement mission budgeting for Department of Agriculture, and some research and development activities		x	
Establish common authorizing-budget categories in the Department of the Interior's Bureau of Land Management and the Department of Education's elementary and secondary education activities		x	
Principles and guidelines needed for agency budget categories that better address goals and objectives established in authorizing legislation			x
Improve budgeting on Government-wide policies and issues			
Capital needs and acquisitions:			
--Need to establish congressional and executive-branch focal points for policy oversight and decisions		x	
--Possible need for improved budget categories and reporting on capital matters			x
Research and development (R&D) needs and activities:			
--More effective R&D planning and budget role by the Office of Science and Technology Policy is needed		x	
--Adopt standard Government-wide R&D categories for budget reporting		x	
--Better budget information on R&D is needed		x	
Regulatory analysis:			
--Congress and agencies should provide estimates of compliance costs in their regulatory actions		x	
--Better concepts, measures, and ways to consider regulatory compliance costs in budget process			x
Tax expenditures:			
--More integration of tax expenditure information and (possibly) decisions in budget process is needed		x	
--Better definitions, concepts, and measures needed for estimating tax expenditures		x	
Object class structure should be studied and possibly revised to provide better information on spending for personnel (including consultants), procurement, and capital activities			x

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	Take early legislative action	Start oversight or legislation	Encourage further research
STREAMLINE BUDGET AND LEGISLATIVE PROCESSES TO IMPROVE ANALYSIS			
Congress should establish an agenda-setting procedure for program reviews and possible reauthorizations	x		
Develop more selective and focused budget and legislative development procedures			
Shift from one-year to multiple-year R&D authorizations	x		
Identify other one-year authorizations that could be put on a multiple-year basis			x
Identify programs that could be shifted from annual to biennial appropriations actions			x
Establish a rotating agenda for detailed budget formulation analyses to replace current detailed analyses on most activities each year		x	
Improve budget execution			
Eliminate certain deferral procedure di incentives to savings in the 1974 Impoundm t Control Act	x		
More congressional and executive branch review and action on agency obligation plans, results, and analyses of variances		x	
Strengthen the executive branch's apportionment process to minimize uneconomical and ineffective spending		x	
More agency use of productivity data in the budget process		x	
Devise budget incentives for agency officials to effect savings and increase productivity			x
Limits on year-end spending, including their impact on spending patterns and managerial effectiveness			x
ENHANCE THE RELIABILITY, CONSISTENCY, AND COMPARABILITY OF BUDGET FIGURES			
Improve the realism of budget estimates			
Provide better budget reporting and visibility on the amounts contingent upon passage of legislation		x	
Better congressional and executive branch monitoring and analyses of variances concerning agency plans and results on outlays, obligations, and balances of authority		x	
Strategy needed for devising legal, procedural, or other means for making agency program level estimates "best estimates" rather than "targets" (including principles for incorporating inflation and other economic variables)			x
Provide full year estimates for emergency programs such as the Bureau of Land Management's emergency fire fighting program	x		

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ENHANCE RELIABILITY OF BUDGET FIGURES (cont.)	Take early legislative action	Start oversight or legislation	Encourage further research
Eliminate certain off-setting practices that distort budget totals			
Treat sales of certificates of beneficial ownership as borrowings rather than "sales of assets."	x		
Adopt gross basis for calculating and reporting outlays and revenue		x	
Improve budget authority concepts and applications			
More complete use of budget authority concept to encompass authorized maximum potential obligations:			
--Revise budget treatment of the Foreign Military Sales Trust Fund		x	
--Apply full-funding approach to appropriate multiyear projects now incrementally funded		x	
--Extend concept to include maximum potential obligations from all funding sources, including collections and carryover balances:			
.Count limitations on direct loan obligations as budet authority		x	
.Extension to other programs			x
Use of cost and accrual data in budgeting			x
Better budget measures of the Government's contingent liability			x

Testimony Submitted by Twelve Organizations
on
AMENDMENTS TO THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT

Committee on Governmental Affairs
United State Senate
March, 1982

This testimony is submitted on behalf of the following twelve organizations:

American Association of State Colleges and Universities

American Educational Research Association

Association of American Publishers

Association of Media Producers

Council for Exceptional Children

Council of Chief State School Officers

International Reading Association

Michigan Department of Education

National Association of Elementary and Secondary School Principals

National Association of State Boards of Education

National Association of State Universities and Land Grant Colleges

National Education Association

Introduction

When the Congressional Budget and Impoundment Control Act was signed into law on July 12, 1974 we members of the education community took heart, as did so many other Americans concerned with the efficient operation of government and its responsibility to the public's will. During the seven years since the law's enactment we have shared the disappointment of the statute's authors as fiscal year and other deadlines were unmet, at the persisting need to rely on continuing resolutions, at the changing interpretations of the law and its use to achieve legislative ends, and at the other imperfections which in the course of nature become apparent after seven years of experience with any major legislative initiative. It is natural, therefore that we again take heart at the serious and studied effort being undertaken in the Congress to bring the Budget Act back on course.

We shall eschew the temptation to engage in rhetoric on the budget responsibilities of the Congress, the balance of powers between the executive

and legislative branches with respect to impoundments, and the need for fixing budget responsibility, especially in the more esoteric areas of tax expenditures, loan guarantees and trust funds. We will instead proceed to offer our agenda for budget act reform. That we have confined our agenda to a relatively few select items does not mean that we are unmindful of other areas of concern. For purposes of emphasis we have limited our testimony to several central matters which are of common concern to us all; the parties to this testimony may separately express individual views on other specifics.

Changes in the Reconciliation Process

1. We urge that legislation with no substantial budgetary impact should not be permitted in a reconciliation bill. Such an amendment is consistent with the well-established Senate practice of not permitting legislation in an appropriation measure. The best way to sabotage the budget process is to permit it to be used as a vehicle for non-budget endeavors.

2. A reconciliation bill should be permitted only after the second budget resolution. The theory behind the reconciliation process as originally enacted was to bring appropriation measures already considered in the Congress into alignment with the budget resolution. As it was done this past summer, the reconciliation bill which followed the first budget resolution was signed into law on August 13 after the Senate had considered only one of the twelve routine appropriation bills for FY 1982. One could properly ask what in the FY 1982 appropriations was being reconciled. The reconciliation process should be just that -- reconciliation -- and should not be a device to bypass the authorizations and appropriations process.

Changes to the Impoundment Process (Title X)

1. The period of "45 calendar days of continuous session of the Congress" which operates as a 'deferral period' pending affirmative action by the Congress on a rescission should be eliminated. The rationale for repeal of this 'deferral period' is consistent with Congressional practice. Should, for example, the President send to the Congress a message asking for repeal of a law, would the Congress allow suspension of enforcement of that law for 45 days until both houses decide whether to go along with the President's request? Should the President send Congress a message asking for repeal of part of an appropriation law (which is in essence what a rescission request is), why, using the same rationale, should Congress permit suspension of enforcement of that law?

In urging the foregoing we are not unmindful that while logic appears to be on our side, political realities are not necessarily so. Thus, the following alternatives are offered:

(a) The 'deferral period' should be reduced to 25 days to be consistent with Sec. 107(b) which provides that if the committee fails to act on a rescission bill within "25 calendar days of continuous session of the Congress after its introduction", a motion may be made to discharge the committee and bring the bill to the floor; or

(b) Since the provision as now interpreted means that the "45 calendar days of continuous session of the Congress" can stretch beyond that time, the period should be redefined it as simply "45 calendar days".

2. Give Congress the power to deny proposed rescissions before the 45-day deferral period has expired, thus obliging the expenditure of the funds stipulated in the rescission request. Congress now can only deny a rescission request by inaction; it cannot force the spending of funds before the 45-day waiting period has expired. In contrast, if the President deferred (rather than rescinded) funds for 45 days, either house of the Congress could abort that deferral by passage of a simple resolution.

In this connection it should also be noted that since the statute specifies "45 calendar days of continuous session of the Congress", the deferral period often runs longer than 45 actual days because of recesses.

3. In case of GAO findings of impoundments not reported by the President, the date of the rescission or deferral should be from the date of actual impoundment rather than from the date of the GAO finding. Sec. 1015 provides that if the President has rescinded or deferred funds and has not notified the Congress of this, then the Comptroller General must report this fact to the House and Senate. In practice, in the case of a rescission the 45-day deferral period has run from the date of the Comptroller General's discovery report rather than from the date the actual rescission was made. Failure to correct this situation could encourage the Executive to conceal rescissions.

4. The law should be amended to prohibit rescission requests to follow deferrals on the same item for 45 days and vice versa. The compounding of impoundment requests frustrates the purpose of the act to curb abuses in the impoundment process and to bring order to it.

5. We oppose proposals to permit Congress to accept only part of a deferral request. At first blush, this seems a constructive idea. However, since under Sec. 1013 either house of the Congress can veto a deferral request, permitting one house or the other to effectively amend such a request would be contrary to the comity of the bodies. This alternative is also unsatisfactory because it would require both houses of the Congress to act on a deferral request rather than only one house as is now the case. Such an amendment would weaken Congressional control of impoundments as now written into the law and should be rejected.

Authorization Changes

The Budget Committee should be prohibited from directing legislative committees to reduce or otherwise alter authorizations. Such a prohibition would not apply, of course, to entitlements since there is no other way in the appropriations process to reach them other than altering the entitlement law which is under the jurisdiction of the authorizing committee.

This request, too, is consistent with the long-standing Senate practice of barring legislation from appropriation measures.

The budget process should remain just that -- a budget process. An authorizing statute does not oblige the expenditure of money. It takes no scholar or Senate veteran to cite statute after statute where funds have been authorized and appropriations have not been made or have not approached the dollar levels authorized.

The Senate Budget Committee is not divided into subcommittees. To expect the 22 members of that committee to be knowledgeable and responsible for the myriad details of all authorizing legislation for which there is an appropriation is asking too much. We properly look to the Budget Committee to construct ceilings and floors, not to build the entire house and to furnish it.

Conclusion

We feel the suggestions we have offered will in good part help make the Congressionsl Budget and improvement Act a balanced instrument for Congressional budget control. Just as the 93rd Congress is remembered for enactment of the original statute, we look to the 97th Congress to reshape it in the light of the experience of the past seven years and needs for the future.

STATEMENT of the

COALITION FOR HEALTH FUNDING

The Coalition for Health Funding, representing over 60 health and health-related organizations in the campaign to obtain essential federal funding for public health programs, appreciates this opportunity to appear before the Senate Governmental Affairs Committee to share our suggestions on ways of improving the effectiveness of the Congressional budget process. We are extremely supportive of the Committee's willingness to review the functioning of the seven-year-old Congressional Budget Impoundment and Control Act. Clearly, this act has become the cornerstone of federal budgetary policy and is being utilized to an extent not envisioned by its framers. While we subscribe to many of the goals and objectives of the Budget Act, particularly its statement of procedures for the determination by Congress of national budget policies and priorities and for legislative review of impoundments proposed by the President, we, nevertheless, are concerned with several major changes it has generated in legislative-executive fiscal relations and the many unworkable timetables it prescribes for Congressional consideration of the federal budget.

There will be many suggestions this Committee will receive for improving the functioning of the 1974 Act. The Coalition for Health Funding has identified certain modifications which we feel would contribute to a more managable system for the consideration of federal budgetary priorities and goals, and at the same time maintain sufficient opportunity for the exercise of congressional prerogative in this process. We would like to briefly outline our suggestions.

The CHF would like to propose a number of modifications to Title X of the Act relating to impoundment control. Under current law, funds proposed for rescission must be made available for obligation if Congress does not adopt a rescission bill

within 45 days of receipt of the President's message. We agree that Congress must have the authority to disapprove a rescission request, yet a better procedure for the consideration of the requests would be to grant to the Congress the authority to take affirmative action to deny proposed rescissions before the 45 day period of continuous session of Congress has expired. While Congress can deny a rescission request at any time, it cannot, under current law, force the spending of funds before the 45-day waiting period has expired. This is inimical to the language governing congressional consideration of a deferral message by which either house of the Congress can abort a proposed deferral of funds by adoption of a simple resolution of disapproval. The fact that the expenditure of funds, authorized by Congress in an annual appropriation bill, can be deferred for a long period of time without any statutory authority of Congress to abort it weakens the ability of the Legislature to exercise budget control.

The Coalition is concerned with Section 1015 of the 1974 Act which provides that when there has been an impoundment of funds (either a rescission or deferral) and the President has not notified the Congress of this, then the Comptroller General must report this fact to the House and to the Senate. In practice, in the case of a rescission, the 45-day "deferral period" has run from the date of the Comptroller General's discovery report to the Congress, rather than from the date when the actual rescission was made. This provision in the Act encourages the Executive to conceal rescissions. In fact, this has occured with the recent rounds of deferrals. The Office of Management and Budget on October 9 directed all Executive agencies by internal memoranda to obligate funds at rates announced by the President on September 24 which are twelve percent lower than those authorized by P.L. 97-51, Continuing Appropriations for FY1982. This was fully two weeks before the actual deferral messages implementing this policy were transmitted to the Congress. Many have still yet to be transmitted. This type of procrastination in the actual

reporting of a deferral proceeding runs counter to the spirit of the Budget Act and inhibits timely congressional consideration.

The Coalition strongly feels that the law must also be amended to prohibit a Presidental rescission message from following a deferral of funds on the same item and vice-versa. This type of executive maneuvering violates the definition of a deferral, namely a temporary withholding of budget authority for a prescribed period of time. By allowing the Executive to "piggyback" different types of impoundment techniques, the intent of the Congress in approving a deferral is ignored and the obligation of funds may be delayed indefinitely without any opportunity for remedial action. One solution to this problem is to prohibit consecutive impoundment messages on the same programs so that no activities are "held hostage" by the Executive.

The Coalition would like to address the issue of budget reconciliation and its applicability to the overall budget process. The purpose of reconciliation is to bring federal spending in line with congressionally-approved budget ceilings adopted in the Second Concurrent Resolution on the Budget. This is the binding budget resolution acting as a ceiling for spending provided through regular appropriation bills. Reconciliation as it was orginially designed in the 1974 Budget Reform Act has an important place in Congressional decision-making. It provides the only mechanism for subjecting direct spending entitlement programs to the same scrutiny as other programs. A severe aberration of this process occured over the past several months as budget reconciliation was employed in conjunction with the First Budget Resolution which by law merely sets spending targets to guide individual spending bills. Because no spending bills are ever considered before the adoption of the First Resolution, the Congress in the spring of 1981 instead resorted to the only possible way of reducing future spending, namely by cutting program authorization levels, or the maximum that the Congress could spend for discretionary programs, and to revise the entitlement programs. For the first time, the authorizing committees

to enable it to proceed to the consideration of appropriations within a reasonable amount of time after the First Budget Resolution has been adopted. Historically, however, committees have not met this deadline. As a result, the appropriations subcommittees are forced to defer consideration of the funding for the unauthorized programs, forcing their inclusion year after year in a Continuing Appropriations bill with funding at the current rate. This negates the months of hearings held by the appropriations subcommittees to determine a proper level of funding. We feel that not only should all authorizing legislation be reported by May 15, but final enactment into law should be mandated by this date. This permits the Appropriations Committee to know the actual authorized levels for the coming fiscal year, and not merely the House- or the Senate-reported level. Legislation providing new entitlement authority must also be adopted by this date, so that the Appropriations Committee knows its exact spending authority in relation to the entitlement authority provided to the legislative committees. Entitlements must be controlled by the budget process in the same manner in which appropriations are controlled. Another solution might be to consider a two-year budget cycle in which legislative committees would enact authorizations two years prior to the applicable fiscal year for appropriations purposes. This would remove the time constraint from the authorizing committees and assures the Appropriations Committee that legislation would be adopted before the mark-up sessions commence.

The Coalition for Health Funding has a further specific recommendation relating to Function 550 of the Federal budget, HEALTH. Currently Function 550 includes the discretionary health programs, as well as, the two massive non-discretionary health programs, Medicare and Medicaid. We feel that because of the entitlement status of these latter programs, any consideration of the non-discretionary programs should be distinct from the consideration of the discretionary programs. These discretionary programs enjoy no similar guarantee of funding, placing them at a competitive disadvantage in the budget allocation process. We feel a better method would be to

became involved in developing a reconciliation bill and in deciding where cuts would be made. The impact of this major change in procedure on one hand was to place an overall ceiling on each standing committee's freedom to legislate. The legislative process which allows for policy decisions to be based on open hearing and opportunity for public input had become totally subverted as scores of major legislation were packaged for consideration in bloc at levels determined by the Office of Management and Budget and the congressional Budget committees. There was no opportunity for citizen involvement in this process despite the severe budget cuts impacting on the lives of the program beneficiaries. Substantive changes in legislation were included in the massive Reconciliation bill, the impact of which was not discernible until months later. The fast-track process also greatly diminished the impact of the appropriations process which this year must provide funding within authorization ceilings imposed without any debate.

The Coalition feels that in order to avoid the problems inherent in this recent experience with the reconciliation process, reconciliation should not be used until after adoption of a Second Budget Resolution when binding spending ceilings have been established. Additionally, we feel that no substantive legislation should be included in the package of budget cuts authorized by this process, but instead the Budget Committee should set spending targets for each committee, leaving it entirely to those committees as to the proper method for reconciling spending bills. There is no need for major substantive changes in the legislation to meet the goal of reconciling spending with budget ceilings. It merely denigrates the functioning of the legislative process. The Coalition would be pleased to work with the Committee in addressing this most important matter.

The Coalition for Health Funding would like to specifically address the issue of the May 15 deadline for the reporting of authorization legislation by substantive committees for the ensuing fiscal year. This timetable is intended to provide Congress with firm information on prospective authorizations, and more importantly,

develop a new separate Function 560, Health Entitlement Programs, keeping Function 550 for discretionary programs solely. We want to emphasize that what we are proposing is not the separation of a small function of the government, but, in fact, one which is larger, $9.4 billion for FY1982, than 9 of the 16 funcitons presently used for budgetary purposes. The discretionary programs, upon which the general health and well-being of the American public depend, should be considered independently, based on their individual achievements and collective contribution to a healthier nation.

Thank you for allowing us the opportunity to testify on this important issue, and we look forward to working with the Committee during its further consideration of amendments to the Budget Act.

COALITION FOR HEALTH FUNDING MEMBERSHIP

American Academy of Orthopaedic Surgeons
American Academy of Pediatrics
American Association for Dental Research
American Association of Colleges of Nursing
American Association of Colleges of Osteopathic Medicine
American Association of Colleges of Pharmacy
American Association of Colleges of Podiatric Medicine
American Association of Dental Schools
American Association of University Affiliated Programs for the Developmentally Disabled
American Congress of Rehabilitation Medicine
American Diabetes Association
American Federation of Teachers
American Heart Association
American Lung Association
American Nurses' Association
American Optometric Association
American Pediatric Society
American Personnel and Guidance Association
American Psychiatric Association
American Public Health Association
American Society of Allied Health Professions
American Society of Human Genetics
American Speech-Language-Hearing Association
Arthritis Foundation
Association of American Medical Colleges
Association of American Veterinary Medical Colleges
Association of Independent Research Institutes
Association of New York Neighborhood Health Centers
Association of Physician Assistant Programs
Association of Schools and Colleges of Optometry
Association of Schools of Public Health
Association of University Programs in Health Administration
Citizens for the Treatment of High Blood Pressure
Cystic Fibrosis Foundation
The Endocrine Society
Group Health Association of America
Human Growth Foundation
March of Dimes Birth Defects Foundation
Medical Library Association
Mental Health Association
National Association of Community Health Centers
National Association of Counties
National Association of Social Workers
National Committee Against Mental Illness
National Council of Community Mental Health Centers
National Council on Alcoholism
National Health Education Committee
National Hemophilia Foundation
National League of Nursing
National Retired Teachers' Association/American Association of Retired Persons
National Student Nurses' Association
New York State Committee Against the Treatment of High Blood Pressure
Planned Parenthood Federation of America
Society of Investigative Dermatology
Society of Neuroscience
United Auto Workers

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